The economic history of Central, East and South-East Europe, 1800 to the present

The long 19th century (1800–1914)

Economic policy

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1. Introduction

In the course of the nineteenth century economic policy in Eastern and South-eastern Europe was confronted with problems which were either entirely new or became more pronounced in the course of time. One of them was the growing lag to the advanced economies of Western Europe, which required administrative reforms in order to enable the state to effectively pursue its agenda in economic policy. Around 1850 and well into the second half of the century the governments pursued a liberal agenda of laissez-faire and free trade. The late nineteenth century and the remaining time up to the war saw a rise in protectionism, a growing share of state ownership in infrastructure, and a growing government share in GDP. In part, this was meant to strengthen the economy in competition with other countries, in part it was motivated by the requirements of foreign policy and armament.

Another problem relevant throughout the century was political disintegration. At the beginning of the nineteenth century, the region was divided up among the Austrian Empire, the Ottoman Empire, and the Russian Empire (in addition, there were some small states, the Republic of Ragusa, the Monastic State of Mount Athos, and the de facto independent prince-bishopric of Montenegro). In the following decades territorial changes happened mostly at the expense of the Ottoman Empire. Remarkably, not a single attempt at independence from the Ottoman Empire that was launched in the Balkans in the nineteenth century was unsuccessful in the end (Clewing 2002). The Greek revolution started in 1821, leading to full independence in 1832. The Danubian principalities of Wallachia and Moldavia had enjoyed a relatively autonomous status under the Ottoman rule, and were unified under the name of the Romanian United Principalities in 1861. Serbia became an autonomous principality as a result of the Serbian revolution in 1817, with terms of autonomy defined in 1833. Following the Berlin Treaty in 1878, the independence of Romania, Serbia, and Montenegro was recognised by the Great Powers. The same treaty was the basis for the occupation of Bosnia and Herzegovina by the Austro-Hungarian Empire, and for Bulgarian autonomy. The newly formed Principality of Bulgaria (the northern part of modern Bulgaria) became a de facto independent state, while East Rumelia (the southern part) became an autonomous Ottoman province which was governed by the Prince of Bulgaria from 1886 on. At that time, all independent countries, de facto independent regions, and occupied territories comprised 60 percent of the territory, and 70 percent of the population of the whole part of Europe that had been Ottoman in 1800 (Reclus 1886, 45 and 152). In 1908, Austria-Hungary annexed Bosnia and Herzegovina in accordance with the Russian government. On the same day the Bulgarian Prince seized the opportunity and declared full independence (Berend 2003: 245–247; Jelavich 1983; Mishkova and Daskalov 2014). Following the Balkan Wars of 1912/3, the independent Republic of Albania was declared in 1912, and recognised internationally in 1913. At the same time, most of the remaining Ottoman territory in Europe was divided up among Serbia, Montenegro, Greece, and Bulgaria. By 1914, the Ottoman Empire had lost about 96 percent of the territory it had held in Europe in 1800.
The Austrian Empire, which was formally constituted in 1804 as a unified empire of lands which had been connected by personal union before, remained in existence until 1867. Apart from territorial losses in northern Italy, a major threat to the Austrian Empire resulted from the 1848/9 revolution when Hungary tried to secede. In 1867, the Hungarian lands finally and definitely gained their own constitution and government, and the rest of the country received a similar political order. Henceforth, Hungary and Austria formed the Austro-Hungarian Monarchy, basically a union of two separate states with a common Foreign Minister, military, central bank, and currency.

In the remainder of this chapter, we first provide an overview of the political decision making process and the modernisation of the state apparatus during the nineteenth century. We also briefly discuss the legal capacity of the states which acted either as a constraint on policymakers or enabled them to pursue and enforce certain set of economic decisions. This is followed by a discussion of different components of economic policy including fiscal policy, monetary policy, trade policy, agricultural policy, industrial policy and infrastructure policy. We provide a summary and discussion of our findings in the conclusion.

2. Modernisation, legal capacity, and political decision making

In the late eighteenth century, modernisation and political reform became the agenda of the governments of the three empires in the region. The enlightened emperors of Austria pursued an ambitious policy of emancipation of serfs, codification of core legal matters, administrative reforms, general compulsory education and health measures, and a large number of other important reforms. The Russian governments, though less radical in substance, proved still capable of a number of reforms in education, agriculture, the promotion of trade, and of wage labour as opposed to serfdom. Likewise, the Ottoman state introduced a set of fiscal, monetary and administrative reforms. In any case, the reforms were aimed at improving military and economic capabilities, economic independence, catching up with more advanced Western countries, speeding up political centralisation against local authorities, and improving general welfare and happiness.

For much of the nineteenth century economic, social, and administrative reforms would continue in both authoritarian and constitutional regimes. In Russia, due to the late and limited success of the constitutional movement, reform measures happened from above in an authoritarian environment for most of the time. The ministerial system established by Alexander I (1801-25) remained intact until the collapse of the empire in 1917. This administrative reform gave way to the emergence of a large bureaucratic apparatus, however, given the absence of parliamentary institutions it had limited efficiency and led to political cleavages within the bureaucratic system. The 1864 judicial reform introduced some degree of limited government, since it separated the judiciary from the legislative and executive institutions, but the autocratic system changed only in 1905 when a semi-constitutional monarchy was established with a two-house system. The authoritarian and increasingly despotic government of revolutionary leader Prince Miloš (in power from 1816 to 1839), was still able to lay the foundations of the modern Serbian state, and enjoyed much popularity amongst the peasantry for its measures in agriculture. The Tanzimat reforms of the Ottoman Empire (1839–1876) took place in an authoritarian environment yet they aimed at political and economic liberalisation and modernisation, giving way the first parliament and the constitution in 1876. This was followed by the authoritarian rule of Abdulhamid II (1876-1909) and the nationalist Young Turk Era (1908-1914). In Austria the neo-absolutistic era after the 1848 revolution was a period of intense reform in administration, trade, agriculture, industry, and other fields, focusing on property rights and a restrained role of the state. In part, this economically liberal
approach was unavoidable due to fiscal limits, but much of it was simply a continuation of acts issued by the short-lived revolutionary parliament, and in turn continued well into the constitutional era. This is not to say that political events such as revolutions or wars were unrelated to economic policy: the outbreak of the 1848 revolution in Vienna, the 1905 revolution in Russia, and the 1908 Revolution in the Ottoman Empire were triggered by demands for political participation and by economic dissatisfaction, and the German-Prussian War of 1866 and the Russo-Japanese War of 1905 induced fiscal crises and crises of confidence, which would lead to profound constitutional changes in Austria and Russia, respectively (Baberowski 2006; Shakibi 2006; Shaw 1975; Sundhaussen 2007).

Throughout the region, some kind of constitution became unavoidable at some point of time. Differences lay in the de facto relevance of the constitutions, the role of political parties in the parliaments, and in the voting rights of the population. Constitutional solutions were by no means permanent. A typical example is Serbia, which received its first rather liberal constitution as early as 1835. Until 1901, the country changed its constitutional order six times, either yielding to external pressure by Austria, Russia, and the Ottoman Empire, which meant a restriction of constitutional rights, or to internal reactions to repression and unsuccessful war, which compelled the government to make concessions (Sundhaussen 2007: 203–204). Similarly, Greece, initially an absolute monarchy, received several constitutions (1844, 1864, 1909), each of them the result of a coup d’état (Clogg 1992; Spyropoulos and Fortsakis 2009). The Austrian, Hungarian and Romanian constitutions of the 1848/9 revolution were short-lived statutes which were either regarded as insufficient and revoked quickly, or did not become effective from the beginning. In both Austria and Hungary, and in Romania, a successful constitutional movement began in the 1860s and led to the Romanian constitution of 1866, and the Hungarian and the Austrian ones of 1867. The Ottoman constitution of 1876 was suspended just two years later, and a representative assembly was not successfully established until after the Young Turk Revolution of 1908 (Shaw 1975; Quataert 1994: 855).

The separation of powers, a key element of any constitution, was shaped differently in these statutes. Usually legislation was done jointly by parliament and the monarch, but there were exceptions such as the Ottoman constitution of 1908 which gave the representative assembly the power to pass legislation over the Sultan’s authority (Brown 2002: 23–26). Parliaments would contain at least one chamber intended to represent the population. A second chamber would be appointed by the monarch (sometimes under parliamentary assistance), and might contain persons who had hereditary rights or were members of the high clergy (Cox 2002; Clogg 1992; Spyropoulos and Fortsakis 2009). According to the Russian constitution of 1906, half-elected State Council became the upper house, and the Duma made up the lower house. The Tsar could dissolve the Lower House any time and at discretion, which he did two times, and dismiss the elected members of the Upper House (in addition, he changed the electoral laws without parliamentary consent). Governments were appointed by the monarch and were usually responsible to parliament; an exception was Russia again where ministers were responsible only to the Tsar. A special element in the formation of new states on the Balkan peninsula was the leading role of foreigners in government and administration. In Greece, after the arrival of King Otto, a Bavarian prince, the key political positions were occupied by Bavarians. Following the coup of 1862, Greece received a new king of Danish origin. The Romanian principalities before unification were governed by Greek princes who owed their allegiance to the Porte, called Phanariots. Following the 1866 coup, another German prince, Karl of Hohenzollern-Sigmaringen, ascended to the Romanian throne. Likewise, the German prince Alexander von Battenberg became the Prince of Bulgaria after the Congress of Berlin, and, following the 1886 coup, another German, Ferdinand of Saxe-Coburg,
accepted the Bulgarian throne and was finally crowned in 1887.

The countries of the region saw a large number of political parties, which developed along the lines of economic interests, nationalistic agendas, foreign policy references, religious affiliation, and so on. Foreign policy was a major issue in parties of the young Balkan states which had to define their position vis-à-vis Russia and Austria-Hungary. A typical example is the party scene in Serbia, where the Liberal Party (dominating the 1870s) was pro-Russian and pan-Slavist; the Progressive Party, governing from 1880 to 1887, was less enthusiastic toward Russia and had stronger inclinations to Austria-Hungary; and the Radical Party, the dominating force from 1887 on was strongly pro-Russian again (Cox 2002: 51–52). In Austria-Hungary, the balance between the two states was among those points that defined party profiles. Especially for Hungary, contemporaries as well as other observers have remarked that parties concentrated more on constitutional and less on social issues (Péter 2000: 462). Austrian politics was dominated by nationalistic agendas for much of the time: At the turn of the century, almost fifty parties were represented in parliament because each of the nine nationalities organised the political spectrum separately. In Russia, in contrast, there were no political parties until the early twentieth century. The emergence of the bureaucracy during the nineteenth century changed the balance of power between crown and landowning nobility but not in favour of the latter. The 1905 revolution brought the crown and the nobility together against the peasantry. The new parliament was dominated by representatives of the land-owning elite who were involved in direct industrial enterprise as well as financial sector through investment in stocks and bonds (Lieven 2006). Concerning economic policy, most countries had liberal parties such as the Liberal Entente in the Ottoman Empire, Trikoupis’s New Party in Greece, the Liberal Party in Serbia and Romania, which advocated Westernisation, industrialisation, and social reforms, and were often perceived as the parties of urban and educated people; these parties were also advocates of civil rights and liberties, and the improvement of representative and parliamentary institutions, and they were opposed to privileges by birth. They stood for industrial development, a rather ambitious infrastructure policy, and at least for some time, for economic and fiscal stabilisation. The main competitors of the liberal parties were usually conservative or populist parties. In Romania, the Conservative Party was closely linked to the landowning class, and supported the existing land tenure and free trade, and less so a free labour market (Jelavich 1983: 23–24; Berend 2003: 243–244; Love 2001). A typical example of a populist party is Serbia’s People’s Radical Party which remained in power from 1887 to World War I. It was pro-Russian in foreign policy and, at home, stressed local autonomy at the expense of the central government, partly because they mistrusted the educated, urban social groups.

The success of any kind of economic policy depended on the “legal capacity”, that is the sheer potential of states and their ability to subject a certain matter to their regulation, and administer and finance the proceedings. In the late eighteenth and early nineteenth centuries states developed a growing ability to establish and enforce legal norms and regulate expanding areas of economy and society. This process was partly related to the level of development in certain fields that had mostly not existed before, such as introducing compulsory schooling. Likewise, states developed the administrative ability to assume ever more competences in areas that had been administered by other actors before, such as local administration and judiciary, a responsibility of large landholders in Central and Eastern Europe until the mid-nineteenth century.

Similarly, the outsourcing of parts of the administration to private agents either for reasons of simplicity or due to lack of state capacity was common. One example was tax farming, that is, licencing private persons to collect taxes in return for a fee subject to certain legal guidelines and control by the state. In the Ottoman Empire, tax farming emerged as the dominant tax collection
method as the efficiency of the traditional tax collection system (timar) by cavalry officers (sipahis) declined with the slowdown of the territorial expansion from the early eighteenth century. Tax farming contracts were initially granted for short term however due to fiscal difficulties the central government began to increase their terms from one year to three years and then to five years, and eventually granted them on a life-time basis. (Karaman and Pamuk 2010; Cizakca 2009; Shaw 1975). This meant that the Ottoman government had to share a significant part of tax revenues with local groups. Yet several efforts to replace tax farming with central tax collection did not succeed, because the central government lacked of local network and influence to collect more taxes. In the young Balkan states, tax farming was not as persistent as the Ottoman Empire, as their small scale possibly facilitated fiscal and political centralisation. In the first half of the nineteenth century, tax farmers in Greece were usually members of the local notable families whose role was mostly restricted to calculating the local taxable production while the actual collection was in the hands of state authorities. Serbia pursued a stricter and centrally directed course of tax collection from the start. Fearing that regional governors might establish territorial fiefs on the basis of their delegated powers of tax collection, the Prince treated them as salaried officials, holding them responsible for collecting the head tax, without letting them get a share from the proceeds (Tunçer 2015). In Russia, the government could only consider abolishing the system of tax-farming by the middle of the century when the bureaucracy developed sufficient capacity to monopolise tax collection. In 1863, the tax-farming system in the production and sale of vodka was abolished resulting in increased revenues through state monopoly and steady decline in the cost of tax collection for the rest of the period (Waldron 2006).

During the course of nineteenth century, the legal capacity of the states in different aspects of economic life was undermined also by foreign factors. In the Ottoman lands capitulations enabled foreign and non-Muslim Ottoman merchants a considerable degree of extraterritoriality and freedom (Exertzoglou 1999; Ahmad 2000; Kuran 2010). For the small Balkan states increasing commercial integration with major trading partners based on monoculture acted as a restricting force over economic policy throughout the period. Another limiting factor was international financial control organisations. Booming government bond markets in London, Paris, Berlin and Vienna led to increasing flows of capital to the region in the form of sovereign debt. In the last quarter of the nineteenth century, this process culminated in waves of defaults, then gave way to the establishment of the international financial control organisations in the Ottoman Empire, Greece, Serbia and Bulgaria. In fiscal matters, these organisations gained control over a share of taxable revenue sources and transferred their receipts to the foreign bondholders for the unpaid debt. In monetary terms, they limited the ability of governments to expand the money supply to finance deficits (Tunçer 2015). Moreover, the inability of the Ottoman government to establish a national central bank of issue led to the transfer of the monopoly of issuing bank notes to the British-French owned Imperial Ottoman Bank with headquarters in London and Paris (Eldem 1999; Autheman 2002). The newly independent Balkan states were quick to establish their national central banks of issue, yet their ability to pursue an independent economic policy was established gradually throughout the nineteenth century by limiting the power of several domestic forces and increasing the power of the central governments (Kostis, 2005).

3. Fiscal policy

As states became more active in the second half of the nineteenth century, their revenues and expenses increased both in absolute terms and as a share of GDP. This increase was accompanied
by a considerable change in the structure of revenues and expenses, that is, the shares of direct and indirect taxes, monopolies, and state enterprises on the revenue side, and the shares of different budget chapters on the expense side. Taxes on property and on the consumption of specific goods proved easier to administer in a pre-modern environment than taxes on income, given that a large portion of income was subsistence income and thus was hard to measure. Likewise, state monopolies in the production and merchandising of specific goods, which were easy to control, remained an important source of revenue. Generally, lawmakers had to choose between effectively taxing the agricultural sector, which was large and earned low incomes, and the industrial and service sectors, which were small and had higher incomes. The state debt, mostly contracted in foreign markets, rose in absolute terms, but it would even decrease in some countries towards the end of the period as a share of GDP.

[TABLE 1 HERE]

In the Ottoman Empire, tax revenues mostly relied on the traditional tithe from agricultural produce. Despite the modernisation and centralisation attempts of the fiscal system from 1840s onwards, the personal tax, a symbol of transition to the modern tax state, was introduced only in 1903. Overall, the Ottoman central government revenues relied heavily on direct taxes and lagged significantly behind compared to the other countries in the region and the rest of Europe (see Table 1) (Shaw 1975, Özbek 2010, Karaman and Pamuk 2010: 598). Unlike the Ottoman Empire, the Russian state revenues were dominated by indirect taxes which represented between 60 and 70 percent of all state revenues, and 75 to 85 percent of tax revenues. Up to a quarter of indirect taxes was from customs duties. Therefore, between 45 and 55 percent of all state revenues were excise alone, which was levied on alcohol, sugar, tobacco, matches and (until 1881) salt (Hobson 1997: 85–87, Kahan 1980: 69–73). In Russia, after the emancipation of serfs in the 1860s, the predominant source of revenue, the poll tax, became increasingly more difficult to collect. In the late 1870s and early 1880s the government had to make a fundamental review of its taxation system to address the peasant discontent, which led to the abolition of the poll tax. In order to compensate the loss of revenue, in 1885 the government introduced a 3% tax on business profits, increasing this to 5 per cent in 1893 and making it progressive in 1898. Indirect taxation of liquor was an important part of the government revenues averaging 31% government revenue during the nineteenth century. This was supported by other indirect taxes from tobacco and sugar which doubled their revenues from 1880 to 1895. By 1911, the share of indirect taxes in total government revenues rose to 84% (Waldron 2006). The Austrian and Austro-Hungarian state revenues improved throughout the nineteenth century following the general trend in the region. At the beginning of the century, direct taxes were the most important source of revenue, accounting for 40 percent of tax revenues. Personal taxes were of minor importance, fluctuating between 15 and 20 percent of direct taxes in the early nineteenth century. A fundamental change came with a tax reform in 1896, which introduced a comprehensive personal income tax, and led to an increase in absolute revenue from income taxes by 50 percent within three years. Changes in Hungary went into the same direction, but income taxes delivered a larger share than in Austria from the beginning, and eventually less than 40 percent of Hungarian direct tax revenues were property taxes. At the same time, indirect taxes in Austria-Hungary became ever more important. The share of excise and customs duties in the total of direct and indirect taxes grew from 30 percent in the early 1820s to 50 percent in 1848, and from the mid-1890s onwards it stood for more than 70 percent of all taxes (Pammer 2010). In the smaller states of the region, we see a similar shift from direct to indirect taxation. The Greek fiscal policy of the 1870s constantly aimed at lowering the tax burden on the peasants, replacing direct taxation with indirect taxes on consumption. Under-
taxation of the peasantry, which constituted the largest voting group in Greece, started progressively from 1864 and reached a landmark with the abolition of tithe and tax farming in 1880, shifting the fiscal burden to the middle class and the urban sector. Greece was amongst the last countries in Europe to apply an income tax, introduced in 1910. Following independence, the Serbian government also introduced a new set of laws which aimed at taxing large landowners, merchants and professionals, and tried to avoid placing a burden on peasantry and civil servants. Despite the extensive protests from the rising middle class and the wealthy landowners, the populist party backed by the peasantry reduced the land tax, and increasingly relied on the taxation of the urban sector and merchants (Stead 1909: 209; Tunçer 2015; Hinic et al. 2014; Lampe 1971; Palairet 1979).

[TABLE 2 HERE]

On the other side of the budget, the volume and structure of state expenses in the region depended very much on international relations. Due to the large number of international conflicts, military spending remained one of the important items in budgets (see Table 2). Military expenses were highly volatile because every war or international crisis demanded armament and mobilisation efforts which led to an enormous increase in spending within a short period, and accordingly, a reduction as soon as the crisis was over. Otherwise and in peace-times, state budgets mirror the rising importance of new policy matters such as infrastructure and communication, and, to a lesser extent, agriculture, trade, and education. Overall, military spending constituted on average 27 percent of the total expenditure and roughly 4.5 per cent of the GDP across the region. Another important spending item in the budget was the interest service of the outstanding debts. State debts in the region grew in absolute terms (in part, due the rising military expenses), but their extent in relation to GDP and the ability to service the debt differed between countries. In Russia, military expenditure dominated the budget with sharp increases during the Crimean War and the Russo-Turkish war of 1878-9, and by 1914 Russian military expenditure exceed that of Britain in absolute terms. The Russian government, however, was able to contain the spending on debt service as the interest on its loans fell from 4.9% to 3.86% from 1890 to 1902 (Waldron 2006: 480-2). In Austria-Hungary, expenses for the state debt were usually large and not particularly volatile because most of the outstanding debt consisted of long-term contracts, and short-term debts were often rescheduled. In absolute terms, the costs of the state debt rose throughout the period, but not as fast as overall expenses (Pammer 2010). From 1854 onwards the Ottoman Empire began to issue increasing number of bonds in international financial markets and eventually declared a moratorium on its outstanding debt in 1876. As mentioned before, this crisis led to the establishment of international financial control which led to a drastic decline in the cost of borrowing until 1914. A similar process of rapid accumulation of foreign debt, default and introduction of international financial control took place in Greece, Serbia and Bulgaria from 1890s onwards. In each case, international financial control and governments’ willingness to cooperate had a positive impact on the creditworthiness of states leading to a gradual decline in interest service (Avramov 2002; Ivanov and Tooze 2011, Tunçer 2015). The only exception in the region was Romania, which managed to avoid default, and continued to meet the debt service until 1913 regularly. More importantly, especially after 1900, the Romanian government successfully channelled the proceedings of these loans to productive activities including construction of railways and roads, infrastructure and agricultural credit (Lampe and Jackson 1982: 210; Feis 1974: 269; Berend 2003).
Other budget chapters such as roads, agriculture, justice, interior, and education, were mostly of minor importance. The big exception was railways, which became ever more important from the late 1870s on, when most states nationalised railways and constructed new lines. In Russia, the tsarist government produced seven issues of consolidated railroad bonds during 1870-84 to fund railway companies. Gradually railways became the second most important spending item after military rising from 2.5% of the budget in 1885 to 20% in 1908, and the construction of the Trans-Siberian railway contributed to this rise significantly (Ananich 2006; Waldron 2006). In Austria nationalisation was done by simply assuming state liability for railway bonds in circulation, and converting railway shares into special state railway bonds. Therefore, this part of the state railway debt remained clearly identifiable up to 1918. In Hungary the railway debt was mostly converted into ordinary perpetual state bonds. Whenever the states constructed new lines they issued ordinary state bonds as well. By 1905 railway expenses were in the same order of magnitude as interest service and military spending, and from 1907 on railway expenses were clearly above. The nationalisation of railways and state railway construction accounted for about one third of the state debt in 1913. Considering the credit standing of the two states, the fact that much of state borrowing happened in connection with investment and enlarging state property was clearly an advantage (Pammer 2010). Unlike the Austria-Hungary, in the Ottoman Empire, railway construction was predominantly financed by foreign direct investment. The government distributed long-term concessions to selected British, French, German and Austrian groups for the construction and operation of certain lines. At the end of concession periods, lines were to be handed to the government. In the majority of cases, the Ottoman government was also required to pay annually kilometric guarantees to the railway firms, which was usually paid by issuing new loans, hence contributing to the overall indebtedness (Geyikdagi, 2011: 75-79).

4. Monetary policy

In general, the trends in monetary policy in the region followed the major shifts in international monetary standards (see Figure 1). At the beginning of the nineteenth century the countries of the region experimented with different combinations of silver and paper money standards, and this era was characterised by monetary instability. Towards the middle of the century, the transition to the bimetallism, mostly in line with the standard of the Latin Monetary Union (LMU), helped to the modernisation of the monetary systems and contributed to the price stability. The march towards the gold standard was the major characteristic of the European monetary systems from the 1870s onwards, and the countries of the region followed the suit. In theory, the adherence to the gold standard under free capital flows implied loss of independent monetary policy as postulated by the macroeconomic trilemma hypothesis. Yet, in practice, the gold standard appeared with unusual peripheral characteristics and asymmetries. Many countries of the region did not have enough resources to withdraw from circulation existing fiduciary and/or silver coinage, they were subject to cyclical gold flows because of their export-oriented agricultural sectors, they lacked an efficiently functioning banking system, and their central banks of issue were not always able or willing to follow the “rules of the game” for the purpose of maintaining fixed exchange rates.

[FIGURE 1 HERE]

To start with the Austria-Hungary, the state started issuing limited amounts of paper money as
early as 1762. However, following a series of wars, the government declared the notes as forced
tender, and stopped their conversion. In 1811, when the circulation of paper money reached an
untenable level, the government reduced them to a fifth of their face value. In order to restore the
currency, the Austrian National Bank, a private joint stock company, was founded with the
exclusive privilege of note issue and the obligation to redeem the circulating state notes. Bank notes
could be normally exchanged for silver florins at face value until 1848, when the state violated the
provision of note issue. The emission of state notes led to the emergence of so-called agio on silver,
and delayed adherence to the gold standard (Pressburger 1966; Jobst and Scheiber 2014). The
political separation between Austria and Hungary in 1867 did not fundamentally concern the
monetary system. The Austro-Hungarian Monarchy kept the currency of the Austrian Empire,
silver florin up to 1892, when de facto gold standard was adopted with the introduction of the new
currency, the crown. From 1896 on, up to World War I, the Bank was able to maintain exchange
rates close to mint, although convertibility was never established (Jobst and Scheiber 2014: 59).

The distinguishing feature of Russian central banking lay in its role in financing commerce
and industry (Garvy 1972). The Russian State Bank (Gosbank) was founded in 1861, and 1897
when Russia joined the gold standard it became the bank of issue. It stood under complete control
by the Ministry of Finance and became a tool of the government’s commercial and industrial
policy. Although direct lending to the private sector was common among European central banks
in general, in the Russian case the State Bank acquired an uncommonly important role in this
respect, by direct lending and de facto subsidising commerce, industry, and banking. Deposits by
the treasury, which had minor importance for the Gosbank up to the early 1890s, by and by became
its main source of resources, due to surpluses in the government budgets from the late 1880s on,
and to foreign borrowing (Garvy 1972: 884; Stepanov 2004). In 1914, more than three quarters of
deposits in Gosbank were treasury deposits, and government obligations to the State Bank were
insignificant (Drummond 1976: 665, 668). The adoption of the gold standard was the end of a long
struggle to stabilise the currency and part of the government’s efforts to attract foreign capital
which was deemed indispensable for the development of Russian industries (Crisp 1953). The
Ottoman Empire went through similar stages in modernising its monetary system but faced with
additional challenges due to structural economic differences. In 1844, the Ottoman Empire
abandoned debasements, which had been the most common method of raising revenue for centuries,
and established a new bimetallic system. To address fiscal difficulties this time the
government started experimenting with silver-backed paper money. The system worked well as
long as the number of notes in circulation remained low, however the rapid increase in state notes
during the Crimean War turned the experiment into a crisis. Similar to Austria-Hungary, in order
to contain the crisis, the Ottoman Bank was founded in 1856 with British capital (renamed as the
Imperial Ottoman Bank in 1863 following a merger with a French capital group). The bank was
granted with the monopoly of issuing bank notes and in return it successfully withdrew the state
notes from the circulation. During the Russo-Turkish War of 1877/8, the government once again
suspended the privilege of the IOB and started issuing its own state notes. In 1880, the privileges
of the IOB were restored, and state notes were withdrawn from circulation with the help of foreign
loans. Moreover, the government declared the gold lira to be the legal tender and closed down the
minting of silver coinage, thus adopting a “limping standard”. Despite formal adherence to the gold
standard, gold coins were rarely seen in circulation apart from major trade centres and port cities.
As the monetary base continued to rely on silver rather than gold or gold-convertible notes, the
silver currency served as fiduciary money, with only a limited connection to its intrinsic value. The
IOB notes never became widespread across the empire, but circulated only within a small segment
of the Istanbul economy. This was not only because the banknotes could never become a widely
used means of exchange but also because the IOB, primarily a foreign commercial bank, did not act as central bank of issue on behalf of the state, as in other parts of the region (Pamuk 2000; Eldem 1999; Tunçer and Pamuk 2014). An important implication of this monetary system was the lack of control over monetary policy and inability of the Ottoman government to raise seigniorage revenue with issue of notes.

For the smaller export-oriented agricultural economies of the region, the main challenge was to establish and maintain monetary sovereignty under conditions of free capital movement. Greek monetary history, starting with its independence from the Ottoman Empire, was marked by experiments with silver in the early years, bimetallism in the middle of the 19th century (through participation to the LMU) and the gold standard (which later became the gold-exchange standard) in the last quarter of the century. The National Bank of Greece (NBG) was founded as early as 1841 as a symbol of monetary independence and its notes were declared legal tender (Palamas 1930; Kokkinakis 1995). During this period, however, the NBG was not the sole bank of issue in the Kingdom of Greece. The Ionian Bank was authorised to issue bank notes in the Ionian Islands, and when the islands were joined with Greece in 1864, it retained this privilege. From 1864 to 1870, Ionian bank notes represented about 13 percent of the total in circulation (Thomadakis 1985). Although Greece officially joined to the LMU in 1868, the convention was enforced only in 1882. However, the convertibility of bank notes into gold and silver, which was reinstated in 1884, was again suspended in 1885. Only in 1910, Greece adopted the gold-exchange standard under the administration of international financial control (Kostis 2003; Lazaretou 2005; Tunçer 2015).

Other newly independent countries in the Balkans had more or less similar experiences. An important dimension of Serbia’s gradual political independence from the Ottoman Empire was establishing the dinar as the national currency. The country had the right to mint its own coins already under the Ottoman rule starting from 1868. Moreover, in this early period, Serbia applied for membership to LMU three times in 1874, 1879 and 1880, but was rejected on all occasions. In 1884, the National Bank of Serbia was founded and it was granted with the monopoly to issue notes. (Hinic et al 2014). In 1867, Romania adopted a bimetallic standard similar to LMU countries by declaring the leu as the national currency. Similar to Serbia, Romania’s request for membership to LMU was turned down. In 1880, the National Bank of Romania was established by private capital with the help of the Romanian government and it was granted the monopoly of banknote issue. In this early period, the bank issued both gold and silver convertible notes. In 1890, as a result of the deteriorating international gold-silver ratio, Romania switched to the gold standard, and the bank started issuing only gold convertible notes with a cover ratio of 40 percent (Stoenescu et al. 2014). The Bulgarian National Bank (BNB) was established right after Bulgaria gained its independence in 1878. Two years later the lev was recognised as the legal tender and a bimetallic system was established following the model of the LMU. However, the Bulgarian economy still suffered from the problem of foreign coins, all of which were finally withdrawn from the circulation in 1887. In the meantime, in 1885, the BNB was granted the monopoly of note issue. Similar to Romania, Bulgaria also attempted to switch to the gold standard in 1890, however the transition finally took place only in 1902 (Dimitrova and Ivanov 2014).

5. Trade policy

The weight of the foreign sector in overall economic activity differed significantly from country to country. In general, smaller economies of the region were more dependent on the gains from the international trade, and the fluctuations in trade volume followed the shifts in trade policy (see
Tables 3 and 4). Nineteenth century trade policy followed an alternating path between free trade (1860-70s) and protectionism (1890-1900s) (Portal 1966: 805). After 1900, customs duties decreased, but not to the level of the free trade period. The shifts in trade policy were largely driven by three factors: to increase state revenues via custom duties, to protect domestic production from foreign competition, and domestic and international political economy. The weight of each factor differed by country and time.

[TABLE 3 HERE]

[TABLE 4 HERE]

The fiscal drive depended on the tariff levels and the effect on imports. In Russia, at the low point in the mid-1870s, customs revenues equalled about 12 percent of imports; in 1902, the corresponding number was 38 percent. For food, the largest numbers surpassed 90 percent, for raw materials and manufactured goods, 30 percent (Hobson 1997: 94; Barnett 2004: 371). Customs contributed 20 percent of all state net revenues (taxes and income from state property) around 1900, up from 14 percent in the 1870s. In 1910-13 they were back to 17 percent. As a proportion of taxes alone (excluding income from state property), revenues from customs peaked at 26 percent in the early 1890s (Hobson 1997: 86). By way of comparison, customs duties collected in the Austrian part of Austria-Hungary represented less than 10 percent of all net tax revenues in the 1820, grew to almost 14 percent before 1848, and decreased over a long period afterwards. The low point was in the early 1870s, with a proportion of about 6 percent of all net tax revenues. Afterwards customs revenues increased again, hitting almost 14 percent of all net tax revenues in 1898, and decreased to 11–12 percent in the following years. The effectiveness of the policy of protecting domestic production from foreign competition also depended on the taxed sectors and products. The basic assumption was that the underdeveloped manufacturing sector would profit from protectionism, and the free-trade would benefit the export-oriented agricultural sector. The manufacturing sector profited only from duties on those goods that could be produced domestically. In Russia the tariffs on raw materials and semi-manufactured goods, which had to be imported and represented the major cost input, were so high that they actually amounted to negative protection in some manufacturing branches, such as the cotton industry (Hobson 1997: 101–102).

Apart from the advantages delivered by protectionism and state revenues, trade policy offered opportunities of political integration. When the Austrian Empire was constituted in 1804, the western lands and Hungary were not fully integrated in terms of customs policy. Following the 1849 constitution the whole Empire including Hungary turned into one customs and trade area, the existing internal tariffs were removed and the introduction of new ones was forbidden (Komlos 1983). At the same time Austria attempted an integration of the Austrian Empire into the German Customs Union, which was launched in 1834. If successful, this would have resulted into the creation of an economic block of 70 million inhabitants probably dominated by Austria, but Austria had to be content with limited treaties with Prussia in 1853, and the German Customs Union in 1865.

In the Ottoman Empire, due to the capitulatory privileges and tax exemptions granted by the Ottoman sultans to foreign merchants as early as the sixteenth century and bilateral free trade treaties signed with major trading partners in the early nineteenth century, the Ottoman government was not able, and at times not willing, to modify the custom rates. Until 1838 the ad valorem duty
on exports and imports were 3 per cent, but all merchants had to pay an additional 8 per cent duty on commodities transported within the empire. The free trade treaties raised the tariff on exports to 12 per cent and on imports to 5 per cent, but exempted the foreign merchants from paying 8 per cent internal custom duty. In the 1860s, the Ottoman government gradually reduced the duties on exports to 1 per cent and the on imports to 8 per cent. Only in 1907 the great powers agreed on an additional minor increase in the import duties to 11 per cent but overall barriers to foreign trade remained very low (Pamuk 1987, 20-21).

The trade policy of the smaller states of the region were also heavily influenced by the international factors. In 1879, Serbia concluded a provisional bilateral trade treaty with England on the basis of most-favoured-nation principle to break the monopoly of Austria-Hungary over Serbian international trade. Following the protests and threats of Austria-Hungary to raise duties on exports, the Serbian government lost power, and the new government concluded a treaty of commerce with Austria-Hungary in 1881, which locked Serbia to Austria-Hungary as an exporter of agricultural products. Moreover, Serbia agreed not to conclude any treaties with other nations without the consent of Austria-Hungary (Petrovich 1976: 410–411). Greek exports were also little diversified, and correspondingly, easily affected by single changes in trade regulations. The major export item, currants, provided the necessary exchange for the payment of wheat imports, and determined the income level of the countryside, state revenues from customs, and exchange rates. The imposition of the Méline tariff in France in 1892, aimed at protecting French industries, had a direct impact on Greek exports (Andreades 1906; Kostis and Petmezas 2006; Petmezas, 2000). Romania’s experience of laissez-faire was relatively short-lived compared to other newly independent Balkan states. In 1885 it denounced its commercial convention with Austria-Hungary, raised the tariff walls, which marked the beginning of a customs war between the two countries that lasted until 1893. This policy was complemented with a series of industrial protection laws in 1886–7 and 1904–6, which introduced high tariffs on manufactured products and domestic tax exemptions for industry, as well as exemptions from tariffs on industrial inputs and railway freight subsidies (Love 2001: 110). Bulgaria followed the footsteps of Romania, but only after the 1890s. Until then, the country was not able to renegotiate the tariffs, which were set as the basic Ottoman rate of 8 percent ad valorem. With greater independence, the Bulgarian government signed bilateral trade treaties with its neighbours and the great powers raising the tariffs to 14 percent. The rates were increased one more time between 1900 and 1905 with the introduction of Bulgarian tariff regulation and reached 25 percent, a similar level to protectionist Romania (Lampe 1986: 40).

6. Agricultural policy

At the beginning of the nineteenth century, the legal basis of agriculture in the region had still premodern characteristics. The main differences to modern law lay in the definition of property rights, and in the personal legal status of the rural population. The common variety of an unfree status was serfdom. Typical features of serfdom were restrictions of moving, of marrying, and of learning a trade; all this would be allowed upon approval by the lords only. Traditionally, serfdom was a widespread institution in Central and Eastern Europe, but not in the Balkans and the Ottoman Empire. Some of the Austrian lands (Bohemia, Hungary, and others) preserved serfdom up to the 1780s (the other parts of Austria had been free of serfdom for centuries already). In Russia, where serfs belonged either to the state or to private persons and accounted for more than half the population at the beginning of the nineteenth century, the emancipation of state serfs started in the 1840s, and that of serfs in the private sector followed in 1861 (Blum 1961: 420, 427–429;
Gerschenkron 1966). Typically, emancipated serfs were endowed with the land they had previously worked on; this was so in the eastern parts of Austria and in Russia (Kahan 1980: 23–24). Meadows, pastures, and forests, however, became the exclusive property of the former lords in Russia.

Property rights followed a number of different systems, depending on the role of the state and local communities, and the share and precise definition of tenure arrangements. State ownership of arable land was the classical pattern in the Ottoman Empire. The assumption was that land for crop production was state property. It could be recognised as private given sufficient proof, but otherwise it could only be held in possession and could not be sold. Throughout the nineteenth century, the distinction between private and state owned land got weaker and transmission of land by inheritance started to become widespread. A significant transformation took place with the Land Code 1858, which extended the rights of transfer, sale, purchase, mortgaging and inheritance of agricultural land. The Code recognised private property of land, and introduced de facto land ownership by seizure of otherwise untitled land for a period of ten years. Similarly, if the land remained unproductive for three years, its title became subject to transfer. The idea behind the regulation was to create a direct relationship between the government and the individual cultivator of land without the intermediary of a landlord or a tax-farmer (Islamoglu 2000; Pamuk 1987; Gerber 1987; Aytekin 2009).

In much of the European parts of the Ottoman Empire (except Romania), private land-ownership by small farmers was widespread. Greek, Serbian, and Bulgarian peasants were personally free, they could not be expelled from their land, they had freedom to cultivate their own land, and they owned the produce. In Bulgaria, the large estates started losing their power from 1830s onwards due to the policies of the Porte, and the major production unit in the Bulgarian lands was small-scale peasantry similar to the rest of the Balkans. After 1878, the newly formed Bulgarian government only accelerated this process by handing the large estates owned previously by Muslims to Bulgarian peasants (Berend and Ranki 1974: 38–39). In Greece, the Greek diaspora attempted to acquire large landholdings after 1881, and the Greek government promoted the operation as large estates were thought to intensify the production. However, in reality the scheme was not successful and the situation only started changing after 1913 with the annexation of Northern Greek provinces, where large estates and sharecropping were common (Andreades 1906; Kostis and Petmezas 2006; Petmezas 2000). Although the Balkan agriculture did not operate along feudal regulations; Serbian peasants in the first period of autonomy were confronted with the aspirations of would-be feudal aristocrats who started as tax-collectors, but wanted to use this as a basis to accumulate latifundia and compel peasants to *corvée* (obligatory and unpaid labour service) in the 1820s. Eventually, the Serbian Prince decided for an alignment with the peasants and a suppression of the politically more dangerous land-holders. In the constitution of 1835 the peasants’ rights were protected, and the right to demand corvée was suppressed, which was a major obstacle to the formation of large estates (Palairot 1979 and 1997: 85–87). Unlike the rest of the Balkans, in Romania, due to its semi-autonomous nature from the Ottoman Empire, the serfdom was the norm until its abolition in 1859. This was followed by a land reform in 1864 which distributed two-thirds of large landowners’ estates to peasants (Berend and Ranki 1974: 36–37; Constantinescu 1994: 169–179).

The manorial system in Austria, which remained in function until 1848, was basically a system of hereditary tenure: It was tenure since peasants had to pay duties (or render services) as a rent for their land, but it was hereditary since lords were not free to choose their peasants. Peasants were free to sell, bequeath or give away their land without authorisation of the manor, upon which duties devolved on the new land holder. In the 1780s, Hungarian, Bohemian and other serfs were entitled
to receive these rights of hereditary tenants like other peasants upon emancipation. When the
manorial system was abolished in 1848, rent duties and services lapsed, the former lords were
recompensed. Thus, the abolition of the manorial system resulted in full ownership of land by the
peasantry, be it full individual ownership (such as in Austria) or ownership by peasant communes
(such as in Russia). The abolition of the old system in Austria was one of the lasting achievements
of the short-lived constitutional assembly of the 1848 revolution, but at the same time it fulfilled
the government’s aim for a centrally directed local administrative and judicial system. Similarly,
the Russian government regarded the emancipation of serfs not only as inevitable, but also as a
means to modernise the country by way of industrial and commercial growth (Gerschenkron 1966).
After 1861, peasant assemblies and district courts were established at the village level and these
peasant self-governing institutions were placed under the supervision of the local government to
defend the interests of the peasants against the landowners. Yet the reform did not immediately
give way to an independent small peasant economy as it preserved much of the arable land in the
hands of the nobility. Only by the end of the century peasants were able to by their land allotments
by paying instalments in ‘redemption’ schemes administered by the government (Zakharova 2006:
602-4; Moon 2006: 388).

7. Industry and infrastructure

At the beginning of the nineteenth century the industrial sector comprised still a very small part of
the economy even in the more advanced parts of the region. Although the share of industry grew
in the following decades, mechanisation went ahead slowly, particularly in the South-East. The
main issues of industrial policy were competition within the domestic market (with its implications
for productivity and overall production), protection of the domestic market against foreign
competition, subsidies for industry, external effects of industrial production, and unrelated political
interests of the state, for instance, in foreign affairs. In addition, states would own industrial
enterprises themselves.

Traditionally, the domestic market was regulated by guilds and local organisations of small-
scale businesses, which limited the numbers of enterprises and competition. In the Ottoman
Empire, guilds mostly disappeared in 1826 with the abolishment Janissary troops, which were
closely linked to the guilds. In the Austrian lands, the enlightened despots of the eighteenth century
admitted factories outside the guild system, equipped with the privilege to produce and market
certain products in one or several provinces exclusively. In the nineteenth century, the government
increasingly steered a liberal course guided by the explicit understanding that the state had to
remove obstacles to free enterprise. The 1859 trade regulation act distinguished between licenced
trades and free ones. Licenced trades required certain qualifications on the part of the persons who
ran them, mainly for reasons of consumer safety, other trades could be pursued without restrictions.
The act included loose provisions for working hours of children and juveniles only, which were
amended by a more restrictive law in 1885. The general tendency toward deregulation and domestic
competition was offset by the emergence of industrial cartels in practically all industrial branches
in Austria particularly from the 1890s on (Resch 2002). Contrary to the guilds, the cartels were
purely private associations. Hundreds of industrial cartels became possible after the emergence of
ever more large enterprises, which allowed the organization of effective cartels with relatively few
participants. Cartel agreements could not be legally enforced, but firms were permitted to collude.

In Russia, industrial production followed a long-term trend from 1861 to 1913 with annual
growth rates of 5 to 6 per cent (Barnett 2004: 371). The rising tariff rates even in the liberal period of the 1880s, and even more so in the following years, were supposed to protect Russian industry (Stepanov 2004: 17; Von Laue 1953: 432; Gregory and Sailors 1976: 837; Barnett 2004). Yet, the 1880s do not appear as the start of a spurt in industrial growth, and changes in tariffs had no appreciable effect on growth rates which were on average 5.3% per annum during 1880-9 compared to 5.4% during 1870-9. During the incumbency of the pro-industrial finance minister Sergei Witte (1892-1903), labour mobility and railway construction pushed the industrial growth rates to an average of 5.9% per annum. Although 1890s marked a change in economic policy narrative inspired by the teachings of F. List, it is difficult to identify a corresponding turning point in industrial growth rates. The world economic crisis of 1900-3, Russo-Japanese War in 1904-5 and finally large-scale worker rebellions during the revolution of 1905 slowed the growth of Russian industry which was only reversed after the domestic and international stability was established in 1906 (Ananich 2006; Barnett 2004; Zelnik 2006).

Foreign competition was a major issue in countries with an underdeveloped manufacturing sector. In the Balkans, exemptions from the tariff became a means of industrial promotion: Duty-free imports of machinery, raw materials, and semi-finished products were granted to industrial firms in Romania, Bulgaria, and Serbia from the late 1880s on. Some of the policy targets had backfired, since custom exceptions led several manufacturers to import inputs for the purposes of selling them in the domestic market (Berend 2003: 142; Berend and Ranki 1974: 89, 141; Constantinescu 1994: 179–195; Lampe 1975). In addition to these exemptions, states promoted industry by subsidising transport costs and offering free building sites for industrial companies, such as in Romania, and offered them tax exemptions or reductions, such as in Serbia.

State-ownership in manufacturing played a major role in the early Ottoman industry. The machinery and skilled labour for key military goods, such as arms and uniforms, were imported from Europe. In 1838, however, the Ottoman government abandoned most state monopolies and other import-export controls. Even after the 1870s, when the Ottoman government issued a new set of laws promoting industrialisation, the free trade ideology remained prevalent within the Ottoman bureaucracy because policy-makers believed in the advantages of having cheap industrial imports. In the end, the traditional small manufacture mainly survived in the countryside in the form of cottage industry for the production of silk, cotton, wool and carpets, albeit at the price of low wages and much unpaid family labour. Moreover, positive trends in the Ottoman terms of trade encouraged the shift towards export-oriented agriculture and accelerated the decline of manufacturing activities or de-industrialisation (Clark 1974; Faroqhi, 2006; Quataert 1993; Pamuk and Williamson 2011).

Infrastructure building was also subject to intense regulation by the state due to its relevance for state finances and the economy. This is especially true for the railway business. From the beginning of the railway era on, it was clear for governments that railways demanded action regarding capital raising, the standards of superstructure, and safety standards in general. A particular problem was the route, which depended on companies’ commercial considerations, environmental conditions, and on the demands of regional and trade policy, military requirements, and the impact of international railway connections (Röll 1912–1923; Metzer 1974; Stöckl 1975; Gregory and Sailors 1976; Köster 1999; Milić 1993). In many cases, governments issued earnings guarantees to stock holders, which were often combined with the explicit option to nationalise a railway at some time later. Apart from these contracts, states assumed the ownership of major parts of their railway systems by simply buying shares in the stock market or by taking over lines at one go, or by constructing new lines themselves.
Railway construction started in Austria in the 1820s, in Russia in the 1830s, in the Ottoman Empire in the 1850s, and in Greece in the 1860s. Austria was an early case of a nationalised railway system in the region. In the 1840s, in the course of a price slump of railway shares, the state acquired a majority of the existing railway system within a few years in order to stabilise the market, to contain the prevailing private commercial interests in the railway business, to make allowance for regional interests, and to allow for military exigencies. This era of nationalised railways came to a quick end in the 1850s when the state finances came under increasing stress by unusually high military expenses. Therefore, the government decided to sell off its railways, and from the late 1850s on all Austrian railways were private again. This period lasted until the 1870s when both the Austrian and Hungarian governments began to nationalise railways again. In 1914 about 84 percent of the Austro-Hungarian railway system (about 46,000 kilometres) were run by the state railway administration. The Russian railway system started a few years later, but otherwise there were strong parallels with the Austrian case. The very first Russian line, a short connection between St. Petersburg and Pavlovsk which opened in 1838, was a private railway. The first major lines, however, were constructed as state railways in the 1840s. Up to the end of the 1850s, the state owned close to 100 percent of the still small Russian railway system. Similar to Austria, fiscal problems in connection with the Crimean War made the retention of the state railway system difficult. In the 1860s, the state privatised almost all of its lines, and the remarkable growth of the Russian railway system from the late 1850s to 1880 was almost entirely a private matter. At the same time, the government acknowledged the importance of railways for the military and for the industrial sector. In the 1890s, railway construction was meant explicitly to stimulate the expansion of the heavy and mining industries, of subsidiary industrial branches (Von Laue 1953: 428). In addition, private railways owed the government 600 to 850 million roubles (more than their equity and equivalent to about one third of invested capital) due to interest guarantees and loans by the state. From 1881 on, the Russian government built new state railways and nationalised private lines on a large scale. In 1873 all preparatory work for the construction of railways (even private ones) became a legal right and obligation of state agencies. The right of the state to acquire private lines after a limited period became part of the charters of new railway companies. Between 1881 and 1911, private companies built about 18,000 kilometres of new railways in European Russia, and the state nationalised about 21,000 kilometres of private lines. In addition, the state constructed about 18,000 kilometres of new lines in European Russia (and 11,000 kilometres in Asia) by itself. Eventually, the state owned more than 70 percent of all Russian railways in 1910. Public ownership was predominant with railways which led to any Russian border, and in border regions in general; these were also the regions where a major part of those lines were situated which had been constructed by the state authorities themselves.

Railway construction in Ottoman Southeast Europe started much later (Röll 1912–1923: vol III/155–161, vol V/371–374, vol VIII/247–255, vol IX/31–34, vol IX/373–380). The first railway, opened in 1860, was a short line in Dobruja, the second one connected Ruse and Varna in northern Bulgaria from 1866 on. In 1868, after repeated trials, the Porte concluded a contract with Maurice de Hirsch’s Société impériale des chemins de fer de la Turquie d’Europe which was supposed to construct a vast private railway network connecting Constantinople with Austria-Hungary and Serbia via Rumelia and Bosnia, and the Black Sea with the Aegean Sea. The government guaranteed minimal earnings. Within a few years, this arrangement was reversed: Now, Hirsch constructed the railway not as private lines but he built them on behalf of the state, and leased them afterwards through his operating company. By and by, the Ottoman government came to own a network of more than 3,000 kilometres in Europe which was operated privately. In the course toward autonomy and full independence of new states, major parts of this network came into the
possession of new governments who mostly pursued a policy of a railway system that was both owned and operated by the state. The Principality of Bulgaria established a system of state railways by law in 1884. In the following, the state built and administrated new lines (Romania did so already in 1869), and took over older railways from private operators after full independence in 1908. In the last years before the Great War about 90 percent of the Bulgarian network, 90 percent of the Romanian one, and 70 percent of the Serbian one were owned and run by the respective states. (Bouvier 1960, 89–94, 98–102; Milić 1993). In Greece, on the contrary, the state had no role in ownership and operation of railways. Railway construction started late, hindered by the scarcity of capital. A connexion to the rest of Europe, which would have depended on the cooperation of the Ottoman government, became feasible after the Balkan wars only.

8. Conclusion

The period from the late eighteenth century to the Great War saw a deep change in the economic role of states throughout the region. States started to deal with issues that either had been little relevant, or had been administered by non-governmental authorities previously. Most of these issues had existed before, but appeared on a larger scale now demanding more resources, and were subject to comprehensive planning. Authorities had always been confronted with demands of agriculture, industry, health, education, transport, and trade, and had always to decide about the means to finance the measures taken in these fields. But in the course of the nineteenth century, the sheer size of the problems to be solved had become much larger, and the aspiration of states to provide comprehensive solutions had become manifest.

Now measures in education, health, or welfare, were to include everyone due to rising demands for social mobility and changes in technology. New transport systems which required enormous amounts of capital were run or financed essentially by the state to facilitate political and economic unification, and military mobilisation. States gradually became large unified trade areas by abolishing domestic trade barriers and started dealing with other large customs areas. Despite the differences in openness to trade across time and countries, international trade increased its weight in the region as a whole. In line with this development, monetary regimes were modernised, and new independent central banks of issue emerged. The pursuit of commodity money standards with fixed interest rates contributed to financial integration and relative monetary stability; and the convertibility of currencies made the region follow common international monetary standards. State agencies routinely acted not only on the national or regional level, but also on the local level, and administered matters that had been outsourced and run privately previously. Consequently, state budgets and the public service sector grew disproportionately fast, resulting in larger shares of state revenues and expenses in rising GDPs. The distribution of tax burden and government spending were determined by a combination of domestic and international political economy factors. The general trend in the region was a move from direct to indirect taxation. The speed and scale of this shift was determined by relative political power of merchants, peasants, landowners, bureaucrats, and other urban and rural groups. Military expenditures rose with the domestic and international conflicts. At the same time, states displayed comparatively little activity concerning the production of goods, not intervening in private competition, but neither in privately organised restrictions on competition.

Most of these processes was in no way specific to East, Central, and Southeast Europe. A typical, albeit by no means unique feature of the region lay in its belated development, which resulted in a greater reliance on the capabilities of states to solve problems which could be left to
private enterprise in the most advanced economies. Differences to fast growing neighbouring regions such as Germany were gradual rather than principal: weaker, more slowly developing economies relied more heavily on the state. Considering a counterfactual process of states refraining from economic political activity, the outcome would hardly have been more successful: The strong role of the state in the Central, Eastern, and Southeastern European economies was the result not the reason of economic underperformance.

9. References


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Cambridge University Press.


10. Tables and Figures

Figure 1. Monetary standards

[Bar chart showing currency standards over time for various countries]

Source: See the text. Notes: Black vertical lines refer the date of foundation for the central banks of issue.

Table 1. Direct taxes as a share of total tax revenue (%)

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Table 2. Military spending as a share of total government expenditure (%) (1860-1913)

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Table 3. Trade volume as a share of GDP (%) (1860-1913)

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<td>20.4</td>
</tr>
<tr>
<td>Serbia</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>30.8</td>
<td>36.8</td>
<td>48.8</td>
</tr>
</tbody>
</table>


Table 4. Trade volume (% change) (1860-1913)

<table>
<thead>
<tr>
<th></th>
<th>1860-69</th>
<th>1870-79</th>
<th>1880-89</th>
<th>1890-99</th>
<th>1900-09</th>
<th>1910-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>6.9</td>
<td>7.9</td>
<td>0.5</td>
<td>1.9</td>
<td>6.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Austria-Hungary</td>
<td>4.5</td>
<td>4.7</td>
<td>0.8</td>
<td>3</td>
<td>4</td>
<td>5.2</td>
</tr>
<tr>
<td>Ottoman Empire</td>
<td>7.9</td>
<td>-1.9</td>
<td>0.5</td>
<td>0.3</td>
<td>5.2</td>
<td>4.3</td>
</tr>
<tr>
<td>Greece</td>
<td>n.a.</td>
<td>n.a.</td>
<td>3.1</td>
<td>-1.9</td>
<td>5.4</td>
<td>7.3</td>
</tr>
<tr>
<td>Romania</td>
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<td>n.a.</td>
<td>n.a.</td>
<td>-1.5</td>
<td>6.9</td>
<td>11.5</td>
</tr>
<tr>
<td>Bulgaria</td>
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<td>n.a.</td>
<td>13.2</td>
<td>-1.9</td>
<td>11.3</td>
<td>2.7</td>
</tr>
<tr>
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<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>5</td>
<td>4.5</td>
<td>4.7</td>
</tr>
</tbody>
</table>