

## Agriculture – the Power of Growth in the Hungarian economy in the Second Half of the 19th Century

This paper is focusing on the role of the agrarian export in the development of the pre-1918 Hungarian economy between 1850 and 1914, not taking into consideration one of the timing limit of our panel, namely 1929, the end of the first wave of globalization. The reason for this is that Hungary before WWI belonged to the Habsburg Monarchy, after 1867 with a constitutional compromise, to Austria-Hungary. Its territory was three times bigger and its population was twice as many as today. The territorial changes that affected Hungary – and as well as all the successor states of Austria-Hungary – after WWI radically altered the economic circumstances and trading opportunities for the Hungarian agricultural products. Although they still gave more than 60 % of the total export in the 1920s, it was not the collapse of international trade following the 1929 crash which put an end of the flourishing decades before.

The industrialization of Western and Central-Europe from the 1830s onwards provided an expanding market for the Hungarian agricultural, timber and food industry products. The revolution in 1848 opened the way for modernization of the economy in Hungary, for example, by the emancipation of serfs, introducing taxation of all citizens, and abolishing privileges of the noblemen. During the decades following 1848 essential political, institutional and juridical changes were carried out which ensured the success of capitalization in the economy, as well as in agriculture.

The timing of Hungary's integration – between 1850 and 1873 – into Europe's economic development was fortunate. Hungary was able to exploit, in a timely and intensive fashion, these years of economic growth, when grain imports from overseas were not the destructive force that they became subsequently. Between 1840 and 1890, crop production in Hungary increased threefold. From the 1840s until the 1870s, there was a 5 percent average annual increase in exports. In the 1840s, annual cereal exports amounted to 200,000–300,000 tons, but volumes increased to 1.2 million tons in 1867–1871 and to more than two million tons in the 1890s (with flour exports being included in total grain exports). After 1867, one third of Hungarian grain production was exported, with flour exports representing a growing share. At the turn of the century, Hungary was the world's second-largest flour exporter – after the United States. In the post-Compromise years, Hungarian exports reached 30 percent of the GDP. This ratio was three times higher than the European average. Agricultural products and food products accounted for 78 percent of exports. The spectacular growth in production and exports was accompanied, for several decades, by similar increases in price. Indeed, between 1823–1827 and 1872–1876, the price index for plant products rose by 260 percent, while animal products registered a 200 percent increase. What factors helped in this spectacular growth in agricultural production and in particularly grain? Primarily it was a result of increasing arable lands by either plowing up of pasturelands, or the flood protection projects. Between 1870 and 1914 the area of arable land grew by 30 %. The falling area of fallow lands also concluded in growing area of arable lands: from 23 % to 9 %. A greater role in production growth was played by the improvement of average yields and product quality which were due to the following factors: improving farm management, technical and machinery facilities, developing human resources, or applying better soil cultivation.

Table 1 Average Yields for Major Crops in Hungary  
(Quintals per hectare)

	<i>Wheat</i>	<i>Rye</i>	<i>Barley</i>	<i>Oats</i>	<i>Maize</i>	<i>Potato</i>	<i>Sugar beet</i>
<b>1871–1875</b>	6,1	6,1	7,4	5,4	7,4	23	123,5
<b>1911–1915</b>	12,4	11,5	13,6	11,7	17,2	83,4	246,5

Source: Katus 2008. 235.

Table 2 Arable Land and Fallow Land in Hungary

	<i>Arable Land</i> 1,000 hectares	<i>Fallow Land</i> 1,000 hectares
<b>1871-75</b>	10,464	2,290
<b>1891-95</b>	12,009	1,697
<b>1911-1915</b>	12,969	1,149
<i>Index (1871/75 - 1911/15)</i>	124	50

Source: Katus 2008. 234.

This explains why it was primarily agricultural interests that sought the construction of railways, for example, in the 1850s and 1860s in Hungary. In the 1860s, grain and flour accounted for more than half of the total goods transported. In the years following the Compromise, exports accounted for between 50 and 60 percent of total transported goods. Agriculture became the power of growth in the Hungarian economy in the second half of the 19th century, while industry caught up with it by the end of the 19th, beginning of the 20th centuries.

Hungary was particularly affected by one aspect of the Great Depression. This was the agrarian crisis or, more precisely, the *grain sales crisis*. From the 1870s onwards, there was a long-term fall in the price of agricultural products, and of grain in particular. Hungarian grain and flour were squeezed out of foreign markets, owing in part to the competition from cheaper American and Russian grain and in part to the closure of Western markets. Relying mainly on the markets within Austria-Hungary, Hungarian agriculture attempted to counter the effects of the price falls by rapidly increasing production. This policy was only partially successful, as producer incomes fell and production costs and public dues rose. The effects of the agrarian crisis were partly offset by the fact that industrial goods – consumer goods in particular – suffered even greater price falls. Consequently, an industrial price gap developed in the markets of the Monarchy, and the terms of trade on the markets within Austria-Hungary developed favorably for Hungary. In response to the grain sales crisis the Hungarian agrarian economy went through a change in the production structure. What changes were generated from the 1880s? First of all, more than fivefold increase in the cultivated area of fodder crops in interaction with the increase of the relative importance of livestock farming as against plant production. The advance of livestock breeding was due to a combination of factors, including a change in the structure of food consumption as a result of modernization and urbanization. A second factor underlying the change was price development. In comparison with prices for plant products, the prices of livestock products developed more favorably in both world market and the markets of the Monarchy. The change in consumer demand is also reflected in the changing structure of Hungarian agricultural exports. In the 1880s, plant products were predominant, accounting for 37 % of total export; livestock and livestock products accounted for 25 %. By 1913, plant products' share fell to 26 % of total exports, while the share of livestock and livestock exports remained unchanged. As a result, the two principal agricultural sectors were of equal importance in terms of Hungarian exports prior to WWI. Another essential result of restructuring was the increase of food industry products in exports. Between 1867 and 1871 the share of raw agricultural products was 62 percent, food industry products accounted for 15 percent. By the period 1909–1913, the share of unprocessed products had fallen to 51 percent, while that of foodstuffs had risen to 25 percent.

Table 3 The Structure of Total Export of Hungary, 1867-1913  
(at market prices, in percentages)

	1867/71	1882/86	1909/1913
Plant products	37,4	33,8	25,7
Livestock (products)	24,7	26,3	25,2
<i>Agricultural products</i>	<i>62,1</i>	<i>60,1</i>	<i>50,9</i>
Food industry products	15,4	17,8	24,5
Other industry products	21,1	21,0	23,1
Others	1,4	1,1	1,5
<i>Total</i>	<i>100,0</i>	<i>100,0</i>	<i>100,0</i>

Source: Katus 2012. 467.

Hungary's agrarian economic development cannot be explained without emphasizing the role of the common customs area of Austria-Hungary since three quarters of Hungarian exports were destined for Austria. In 1867 a customs and commercial treaty was signed by both Austria and Hungary, because the two independent countries in terms of commerce and customs policy agreed that these affairs were of common interest and thus they formed a single customs and commercial area with a common customs boundary. (In 1850 an imperial edict already introduced common market in the Habsburg Monarchy. However, in 1867 the common market was the result of free negotiations between Austria and Hungary.) The common customs area with free competition and commerce provided an opportunity for both countries to develop those sectors of its economy that were of special advantage. It made an undeniably advantageous impact on the two divergent yet complementary parts of Austria-Hungary. For Hungarian agriculture and the food industry, the western half of the Empire represented a secure, long-term and expanding market – even during the European grain sales crisis and at the turn of the century. In the period 1882–1886, foreign markets had been the destination for 22 percent of grain exports and 40 percent of flour exports. In contrast, by the period 1909–1913, 96 percent of grain exports and 98 percent of flour exports were destined for Austria or Bosnia. At the turn of the century it was sugar export that exceeded 100 million tons and became the most important rate of Hungary's foreign export. It was directed mainly to countries outside Austria-Hungary, especially overseas. As sugar-beet growing was increasing new larger factories were established and the annual production of sugar reached half a million tons during the years preceding World War I.

And finally let us have a look at the international tariff agreements Austria-Hungary signed with other countries in Europe. Between 1865 and 1867, the Monarchy signed trade and customs agreements with other countries that were based on the principle of free trade and ensured most-favored status. These agreements guaranteed the almost tariff-free export of all Hungarian agricultural produce to the countries of Central and Western Europe. At the time of the Depression that followed 1873 and during the grain sales crisis, in late 1876, Bismarck raised the prospect of the introduction of "warlike tariffs" against Hungarian agricultural exports.

The customs tariff of Austria-Hungary in 1882 introduced moderate customs duties on agricultural imports. The customs tariff of 1887 fully reflected the shift towards protective tariffs in Europe: customs duties on both industrial and agricultural goods were raised significantly. In the 1890s, a broad trading zone, based on agreements, was formed in Central Europe, with reduced tariffs and enhanced transparency: Germany, Italy, Switzerland, Belgium and the Monarchy signed trade and customs agreements with each another. The new trading agreements raised great hopes among Hungarian economic policy-makers. It soon became clear, however, that Hungarian agricultural exports would not be able to recoup their markets in the West. Under such circumstances, the main supporters of free trade, Hungary's agricultural producers began pressing for higher protective tariffs for agriculture, in order to secure for themselves the Monarchy's market in opposition to growing Balkan imports. The tariff of 1906 greatly raised customs duties on agricultural goods. For a quintal of wheat, the import levy was 1.19 crowns in 1882, 3.57 crowns in 1887, and 6.30 crowns in 1906. The effect of the 1906 tariffs on price is shown by the increase in the average annual price of wheat between 1902–1906 and 1907–1911: the increase was 42 percent in Budapest and 39 percent in Vienna, but just 14 percent in London. Between the two periods, the price of flour rose in Budapest by 35 percent.

**Conclusions:** To sum up to what extent agricultural export contributed to Hungary's economic development and what were the characteristics of the Hungarian agrarian exports between 1850 and WWI the following features should be emphasized: **1.** Expanding markets were a challenge for growing production in agriculture, particularly in plant products until the 1880s. As a result of increasing arable lands and falling area of fallow lands the production was growing rapidly. Intensive factors (improved average yields) resulted in the increase of production, too. **2.** Agrarian export helped restructuring agrarian production to some extent: increased cultivated area of fodder crops or industrial plants, like sugar-beet, for example, or helped expanding market gardening and livestock-breeding. **3.** It also generated industrialization and thus changed the structure of exports: the share of raw agricultural products decreased, while industrial goods, including finished products became more significant. **4.** Due to primarily the common market agriculture, the leading sector of the Hungarian economy could preserve its dynamics even during the grain sales crisis. Although the basis of the common market was an agrarian-industrial type of division of labor, the decades during Dualism saw a gradual restructuring of the exchange of goods towards a more modernized and higher level of division of labor (exports of finished goods out of Hungarian raw materials). **5.** The role of agriculture cannot be highly emphasized in the contribution to capital accumulation and to the growth in Hungary's GDP. Prior to WWI the economy's largest sector was still agriculture – although industry was rapidly growing, too. It still accounted for 45-50 % of GDP and employed 62 % of the workforce. **6.** Indirectly as the Hungarian agricultural producers' lobby became stronger and an independent agricultural ministry was established at the end of the 1880s, the following decades saw government supported projects to reduce the regional economic differences in Hungary, particularly improving the way of agricultural production in the periphery.

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