Austrian Reconstruction and the Collapse of Global Finance, 1921-1931

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The biggest surprise in *Austrian Reconstruction and the Collapse of Global Finance, 1921-1931* is how timely it is. Many of the same debates about global finance and its influence on the people of Austria, Swiss historian Nathan Marcus of the National Research University’s Higher School of Economics in St. Petersburg writes, were remarkably similar to those of post-2008 Europe. The players then were the League of Nations and the post-First World War International Reparations Commission, while today the European Central Bank, the European Commission, and the International Monetary Fund have intervened in the ongoing Greek and other crises. The work’s core historical findings form a significant original contribution to the field and provide evidence-based corrections to common misconceptions about interwar Austria and the origins of the Great Depression. The book will interest students and specialists in financial history or those interested in interwar Austria, though it misses the chance to gain a wider audience as a deeper case study delving into economics and multilateral institutions.

An Interdisciplinary History

The tome combines cultural, political, economic, and financial history to create one of the most detailed financial histories covering a crisis in interwar central Europe. The book opens with providing political context by explaining when Austria lost the territories, revenue, and open market of the Austro-Hungarian Empire and turned into what some residents considered a state without a nation. Prof. Marcus calls Austria without the Habsburgs inconceivable to many and a state created by the victors of the Great War, much like states like Czechoslovakia and Yugoslavia that would disintegrate later in the century.
The financial research methods Marcus deploys are among the most important and impressive in the decade-long project. More than 50 financial and economic graphs and tables add depth and evidence to recreate what happened, some based on data only available in archives until now. In an age when many data were not collected, the author finds proxies to fill the gaps in the record while discounting less reliable sources. For example, he carefully discounts central bank balance sheets published during the crisis, as they were manipulated to influence public opinion and unreliable, with foreign currency misleadingly listed as ‘other assets’ and put in the previous or following month as propaganda needs dictated. (p. 491)

Archive Deep Dive

The great strength of the book is its deep dive into archives from New York and many countries in Europe. Through national and private bank records as well as contemporary private correspondence among leading figures reacting to the crises, from letters and confidential communiqués to telegrams and telephone conversation notes, the researcher has done the hard work of a historian to determine how bankers negotiated with Austrian officials and what the leaders were thinking as the crises unfolded, rather than more readily accessible but often misleading public statements or retrospective analyses obfuscated by ideology and the benefit of hindsight. The narrative is thorough and full of 990 citations and notes plus appendices with reproductions of important primary sources that will help other historians approach related stories.

Summary

Austria was not the cause of European financial chaos in the 1920s and 1930s. Rather, it was a canary in a coal mine, more susceptible to the common causes Austria shared with other countries, though its imbalances and dependence on foreign trade and foreign capital were more severe. Nathan Marcus shows ‘accusations of financial colonialism … are entirely misplaced’ (p. 8). In reality, the League of Nations and the Austrian government used each other, the former to gain international credibility as an effective institution, the latter to have a political scapegoat to excuse implementation of unpopular policies (p. 9). Growth in Austria had been stronger than in numerous countries to the west. After the First World War, the disintegration of the Austro-Hungarian Empire closed the region’s largest free trade zone and turned imperial Vienna into the capital of a nation-state, though it alone paid an empire’s civil service pensions (p. 29). Many argued Austria was not sustainable as an independent state and that contributed to the 1921 exchange rate collapse of the Austrian crown and panic-induced hyperinflation of the early 1920s.

Although theories among economists about the causes of Austrian hyperinflation at the time were limited to whether money printing was the cause and austerity combined with a large foreign loan the solution (the establishment view), or whether a current account deficit made the Austrian state fundamentally unsustainable and in need of Anschluss with Germany or a regional trade bloc with Czechoslovakia, Romania, Yugoslavia, Hungary, and Italy (the structural argument), Marcus shows the most likely cause was a more modern explanation: hyperinflation caused by speculation and capital flight was a self-fulfilling prophecy (p. 49).

The book then turns to responses to the crisis. The war’s victors found handing Austria to the newly formed League of Nations was a way for the Allies to rid themselves of a problem, but also to provide impartiality to make foreign control palatable to the country’s population and leaders (p. 79). When Vienna found other methods of fundraising a foreign loan failed, all major political parties decided League of Nations control in exchange for a large loan was necessary to survive the crisis (p. 80). Although the government was at first reticent to give up control, with its back to the wall in the midst of hyperinflation, the government acquiesced in February 1922 (p. 94). The League of Nations sought two iterations of a rescue plan for the new republic. The first League plan failed because the United States failed to release liens on Austrian government assets, a prerequisite for providing collateral for a foreign loan, and the US left the post-war Reparations Commission (p. 97).
The second plan was implemented with a combination of American capital and political consensus. Subjecting Austria to foreign control was politically difficult, as austerity required a two-thirds majority in parliament due to the policy’s constitutional character (p. 124). Thus the League of Nations delegates deployed to Vienna became mediators between London/Geneva and the Austrian government (p. 131). The author shows General Commissioner Alfred Rudolph Zimmerman was a deft interlocutor between the League of Nations and the Austrian government and sympathetic to the plight of Chancellor Seipel and the Austrian National Bank, in contrast to later historians, political cartoons of the era, and politicians of all parties, who depicted him as a dictatorial foreigner with the best interest of creditors, not Austria, in mind.

Other historians had difficulty finding a mechanism for the end of hyperinflation (p. 132). The author deploys a kind of in-case process tracing to identify causal mechanisms and weigh which sources are most reliable to explain exactly how the crisis ended. To achieve this, timing is critical to Marcus’ argument. He shows after November 22, 1922, Austrians began to trust the plan after a compromise between the government and opposition, under League of Nations pressure, succeeded (p. 137).

Despite a new currency (the Austrian schilling replaced the crown and gold crown in 1924) and an end to hyperinflation and League of Nations control, financial troubles would return to Austria in 1929. The Boden-Kredit Anstalt crisis in October 1929 forced the bank’s merger with the larger Credit Anstalt bank, Austria’s largest. Assuming responsibility for Boden-Kredit Anstalt helped cause the Credit Anstalt crisis in 1931 (p. 279). Credit Anstalt was a bank the Austrian government considered too big to fail: ‘To save the CA from bankruptcy, the ANB had to help it satisfy the withdrawals of its worried customers, but with many of these withdrawals being converted into foreign currency, the ANB itself would face a crisis before long’ (p. 305). This second crisis required help from the recently formed Bank of International Settlements in Basel, which reinstated foreign control and worked to collect funds to bail out Austria once more. During the 1931 crisis, the author explains, the international banking community through the Bank of International Settlements in Basel successfully responded to the Credit-Anstalt crisis, while only later that year crises in Germany and Britain brought yet another onslaught that proved too much for the Austrian National Bank, and ultimately Austrian democracy, to bear. This is in contrast to several previous assessments, which incorrectly claimed contagion spread disaster from Austria to Germany and Britain.

One of the most striking uses of statistics is the use of proxies to identify social reactions to hyperinflation in the early 1920s. The author deploys cigarette sales and changes in rates of births out of wedlock to measure distortions in Austrians’ perceptions of time (p. 58). He applies Eugène Minkowski’s six zones of experienced time to show the ‘mediate future’ pales in importance compared to the immediate future when today’s money will be worthless tomorrow. (p. 57). Pregnant women had less time to prepare for motherhood, so births out of wedlock were lower in early 1920s Austria than before or after hyperinflation. Suicide rates rose precipitously at the height of hyperinflation. The author uses these statistics to show there was no time to plan for the future, changing how people behaved. This creative approach to using data to peer into human behavior is a hallmark of the book and can serve as a lodestar for future research in other disruptive times in modern history.

An interesting aspect of the book is its examples from visual culture explaining public reaction to economic chaos. The historian looks at political cartoons responding to hyperinflation and shows how it disrupts society as they depict bankrupt men falling back in love with their wives and women seeking foreign suitors with foreign currency (p. 69). A theme of the comics the author chooses is fear and jealousy of foreigners as well as Jews, depicted as foreign and disloyal, ready to flee when trouble arises. One quibble with this section of the book is a small hole in the argument. The characters satirized in these drawings could well be Jewish, though a skeptical reader can argue nothing in the drawings or the author’s descriptions in chapter one proves the characters are necessarily of Ashkenazi heritage (pp. 73–7). Marcus should identify precisely how he knows, whether through specific aspects of the drawing or through context, to make his highly plausible argument airtight. Nonetheless, the author’s larger point of rising antisemitism still stands as his accounts of goose-stepping right-wing student protestors in Vienna and descriptions of Heimwehr violence
and threats of a coup d’état shaking the foundation of the state paint a vivid picture.

A Note on Style

The writing style is generally clear and straightforward, with vivid anecdotes at the opening of each chapter to humanize the history and bring the lives behind the financial data. Marcus’ book is an adaption of his doctoral dissertation monograph in Modern European History from NYU defended in 2011. The author wisely integrated his literature reviews of various historical works into the body of the text rather than as a tedious separate literature review chapter, allowing the publisher to keep it in the book version and give the reader context for the arguments into which the book enters. One unfortunate distraction is the number of typographical errors and missing words that pepper the work and sometimes obfuscate the author's precise meaning, a curious flaw for Harvard University Press. Also frustrating for many readers will be the plethora of German and French terms, titles, quotations, and footnotes lacking English translation. A few are translated, though many are not. The audience of a dissertation is limited to a panel of examiners but a history book must be accessible to students and other non-sub-specialists who may not speak French or German.

Questioning Austerity

While the research and analyses of precisely what happened in Austria during the Great Depression are groundbreaking, some of the conclusions proffered in the final chapter leave the reader wanting more. Comparisons with the post-2010 Greek crisis is a natural addition to the book, though the brevity of the analysis and citations originating primarily from the Guardian newspaper suggest the analogy was an afterthought. Marcus blames the Greek government for the crisis without citation as if the appropriate policy choice were obvious. Whether austerity was indeed appropriate for Greece or Austria will not be solved definitively in one volume, though the author was remiss to fail to acknowledge a vigorous debate in the literature. The most famous academic critique of austerity is Mark Blyth’s 2013 book Austerity: The History of a Dangerous Idea, in which the Brown University political economist argues fiscal restraint can exacerbate rather than assuage financial crises. Criticism of austerity is not limited to the ivory tower; recent IMF policy has been less strident in its advocacy of fiscal tightening. Indeed, the IMF’s own documents have suggested a sort of mea culpa regarding its policies in Europe during the crisis of the 2010s. Others have lauded austerity and give it credit for economic recoveries in countries like Ireland and the Baltic states. A debate exists.

The specifics of why the budget was so high in the first instance further suggest the book must argue more clearly why the League’s policies were preferable to those of the Austrian governing coalition. Socialists sought to uphold new leftist laws like the unemployment insurance requirement implemented in 1919, decreases in work hours, statutory vacation time, and workers’ councils (p. 29). Add to these leftist policies like pensions for the civil service, including retroactive raises to account for hyperinflation, and managing the state becomes more expensive. Some costs could be considered necessary greenfield investments. Chief among these was electrification of the rail system (p. 234); the Financial Committee refused to allow a further loan for this rail system update in 1925 (p. 238). The author calls one caricature’s comparison of Commissioner Zimmerman’s desire for economic policy reform with a fictional character’s desire for alcohol ‘illogical’ (p. 208). What Marcus calls logical and necessary, some Austrians at the time considered unneeded and cruel. Whether allowing the Austrian government more flexibility or enforcing austerity more strictly was the right policy choice is a historical question now as it was an economic policy question then. For Professor Marcus to write as if his opinion were the only reasonable one and without even citing what modern economic theory says constitutes an oversight. Rather than making the argument, he is assuming the argument.

Even if one were to allow this omission and agree deep austerity was the right course, the author seems to blame Austria’s government in terms strong and definitive enough to belie the complexities, uncertainties, and policy constraints leaders faced. During the first crisis, several Austrian economists argued the fiscal
balancing at a higher level than the League of Nations demanded sufficed to allay foreign creditors’ fears about Austria’s stability. Austria balanced its budget, albeit precariously and dependent on future growth. Even if imperfect, the balanced budget and vote of confidence from the League of Nations and foreign creditors brought calm to currency markets and the banking system. The League had reservations about the budget, though they called the institution’s involvement in Austria ‘the League’s brightest jewel’ (p. 236).

Capital controls are another point of controversy. He argues that during the First World War, Austrian inflation was stable because of capital controls, price controls, and rationing (p. 38). He does not, however, explain why capital controls were helpful during the war but detrimental during reconstruction in 1924, as he implies through an apparent wholesale endorsement of the League approach.

Marcus explains Austria was a price taker (p. 218). Increasing the government discount rate would not have attracted capital for a peripheral country like Austria, so whether it was 14 per cent or 17 per cent made little difference to foreign bankers with desperately needed capital. This limited the options Vienna had to affect its future. Add to this threats of violence between fascist and socialist paramilitary organizations, and the options government actors had – or thought they had – suffered severe limitations.

The author himself shows surprising mismanagement at the Boden-Kredit Anstalt and Credit Anstalt banks, and later crises in Germany and Britain, combined to cause Austria’s eventual spiral into the abyss. The civil war and fascist coup that ended the turbulent years of economic and political chaos were a worst-case scenario. Would a path other than the center-right approach have prevented violence and autocratic revolution? While certain decisions, like Chancellor Seipel’s resignation, were unambiguous blunders, the various political strategies, economic theories, and ideological positions of the various actors navigating the crisis make assignment of blame difficult, especially when the historian enjoys the benefit of hindsight.

The weaknesses of the conclusions and the absence of critical theoretical discussion constitute a missed opportunity to use the history of inter-war central Europe to teach deeper and more convincing lessons about the 21st century world economy. Perhaps a future edition or Dr. Marcus’ next book can expand on the analogy between the crises and use it as a political economy case study.

_Austrian Reconstruction_ represents a careful, painstaking archival deep dive and use of clever methods to analyze data and the important figures in international banking and domestic politics to show how the crisis happened. It also disproves the claim Austria did not cause crises elsewhere but rather was more vulnerable to common causes. The book is a valuable contribution to historical understanding of the first modern bailout in history.

**Notes**

1. Olivier Blanchard and Daniel Leigh, ‘Growth forecast errors and fiscal multipliers’, *IMF Working Papers* (3 January 2013) <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Growth-Forecast... [2] [accessed 1 February 2019]. Back to (1)

2. Lefteris Papadimas and Renee Maltezou, ‘For hard-hit Greeks, IMF mea culpa comes too late’, *Reuters* (6 June 2013) <https://www.reuters.com/article/us-imf-greece/for-hard-hit-greeks-imf-me... [3] [accessed 1 February 2019]. Back to (2)

3. Karsten Staehr, ‘Austerity in the Baltic states during the global financial crisis’, *Interэкономика*, 48, 5 (September 2013), 293–302 <https://link.springer.com/article/10.1007/s10272-013-0472-9> [4] [accessed 1 February 2019]. Back to (3)

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