# ETHNIC CONFLICTS AND MONETARY INTEGRATION IN AUSTRIA-HUNGARY, 1867-1914

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The establishment of the single European currency has given the functional mechanisms of currency unions a high degree of topicality. Many experts assume that distribution conflicts in the European Union will increase as a result of monetary union. However, the resulting dangers for the future of Europe are assessed differently. Opinions also differ about the best methods of expressing and resolving such conflicts. Some ideas are based on the classic models of federalism and subsidiarity, while others advocate overlapping and differently structured organisations of participation. Some emphasize the necessity of decisions taken by majority vote in the interests of greater efficiency, while others are convinced adherents of the principle of unanimity.

With regard to the functional prerequisites for a monetary union, the emphasis placed on the novelty of EMU has frequently obscured the fact that forms of monetary integration have all been preceded by a number of other models and that there are also a number of monetary cooperation and integration models that still function to greater or lesser degrees in addition to the European Monetary Union. While history does not repeat itself, it does provide lessons that policy makers can draw upon for the future. History offers a wealth of illustrative material for ex post-opportunism, dynamic inconsistent monetary policy, monetary regime changes and monetary agreements. On the other hand, history has also witnessed strategies for creating consistency and suppressing opportune actions.

The effect of integrated monetary areas is generally – at least in economics literature – measured in terms of economic development. Experts frequently neglect the external effects when attempting to define the optimal monetary area. The argument does not follow any »mental logic«. However, economic mistakes cannot be blamed either exclusively or even primarily for the failure of international cooperations or the failure of different ethnic groups to co-exist in a political system. If people were to function as *homo oeconomicus*, it would be impossible to explain many of the objections that have been raised within the context of the implementation of the EURO. What makes monetary union so unusual?

In 1995 Bernard Connolly said, »the (European) Commission's slogan ›One Market, One Money‹ is no more than a prediction of discredited ›neo-functionalist‹ theory. In contrast, the countercry of ›One Nation, One Money‹ is the product of psychological, political and historical reality.« This equation of *one* money with *one* people, or put differently, *one* money and *one* state, remains widespread even today.[1] This view has much to do with the idea of the nation state in the 19th and 20th centuries. In 20th century Europe in particular, the idea of the sovereign nation state has been associated with the idea of autonomous monetary policy. Introducing one's own currency was almost always one of the first steps in the formation of new states in 20th century Europe. This was true of the new state order created as a result of the two world wars, as well as for the states created after the collapse of the Eastern bloc.[2]

**Examples:**

> »Currency system and foreign trade policy are the foci of an ellipse in which the economic process proceeds.«[3]
>
> Seventy years later: Vice-President of the Federal Reserve Bank of Boston: »Currency independence rules the waves.«[4]

In contrast, monetary integration is widely viewed as problematic. This is especially the case in countries where a great deal has been invested in a stable and reliable currency. This not only brought about economic prosperity, as in the case of Germany and Austria; it also provided a status symbol that functioned as a substitute for other rituals of national identification. This capital is only unwillingly transferred as »sunk costs« in a trans-national currency.[5]

In fact the equation of the nation state and a national currency has only a very short history. According to a theory put forward by Pascal Salin, the production of money is no more an attribute of state sovereignty than is law making.[6] The equation »One Nation, One Money« is the result of conventions that have celebrated the nation state as the basic unit of the world

1 Mussa, Michae: One Money for How Many? In: Kenen, Peter B. (Ed.): Understanding Interdependence: The Macroeconomics of the Open Economy. Princeton: Princeton UP 1995, p. 98.

2 As an example, the former Slovenian finance minister Mencinger, Joze: How to Create a Currency? – The Experience of Slovenia. In: Weltwirtschaftliches Archiv 129 (1993), pp. 419-431, here p. 419.

3 Röpke, Wilhelm: Die internationale Handelspolitik nach dem Kriege, Jena: Fischer 1923, pp. 1-6.

4 Quot. from Cohen, Benjamin J.: The Geography of Money. New York: Cornell UP 1998, p. 1.

5 For comparison cf. Theurl, Theresia: Zum Wandel des währungspolitischen Paradigmas in der österreichischen Wirtschaftspolitik des 20. Jahrhunderts. In: Nautz, Jürgen / Brix, Emil (Ed.), Zwischen Wettbewerb und Protektion. Zur Rolle staatlicher Macht und wettbewerblicher Freiheit in Österreich im 20. Jahrhundert. Vienna: Passagen 1998, pp. 215-232.

6 Salin, Pascal (Ed.): Currency Competition and Monetary Union. Den Haag: Martinus Nijhoff 1984. Cf. as well Tullock, G.: Competing Monies. In: Journ. of Money, Credit and Banking 7 (1975), pp. 491-497; Rockoff, Hugh: The Free Banking Era: A Re-Examination, in: Journal of Money, Credit and Banking 6 (1974), pp. 141-167.

order since the Peace of Westphalia. In fact, this link (just as the equation state and monopoly upon rule by law) has only existed since the 19th century: »[...] territorial currencies are a relatively recent historical creation, emerging for the first time only in the nineteenth century in the leading economic powers of the world.«[7]

The cohesion of a currency union is threatened at a horizontal level by a possible unequal distribution of the economic advantages and disadvantages, and vertically, by the possible abuse of fiscal resources and political power by the central power in the currency union. Fiscal and political integration can counter the potential for horizontal conflict, but increases the potential of vertical conflicts. The theory that a currency union can only survive in combination with fiscal and political union is inadequate, as it fails to take account of this correlation. The connection between monetary integration, fiscal integration and political integration is ambivalent; steps toward fiscal and political integration can strengthen, but also weaken the cohesion of a single currency depending on which conflict potential is strongest.[8]

However, history also shows that economic and currency unions with pareto-superior results – as in the case of the Habsburg Monarchy – can collapse if non-economic, particularist (but no less legitimate) interests are pursued and the advantages of a separation are deemed greater than those of staying within the union. This weighing of benefits is frequently based on considerations of power politics. With all respect to the benefits provided by economic models, this indicates that an analysis of the mechanisms and functional prerequisites for functioning monetary integration should not neglect the political, social and cultural factors that determine the stability and instability of a monetary union.

Like other forms of economic cooperation between sovereign states the project of monetary union raises two fundamental questions:

1. Are the overall advantages of cooperation sufficient to compensate for the possible disadvantages?
2. Is the incentive to keep the agreements great enough for each party to guarantee the cohesion of the cooperation?

In the 19th and 20th centuries there have been a number of monetary cooperations. Leaving aside arrangements such as the gold standard, the *International Monetary Fund*, the *European Monetary System* and other similar international and regional monetary policy regimes, one can cite: The *Latin Monetary Union* (LMU), *Scandinavian Monetary Union*, *Italian Monetary Unification*, the *German Monetary Unions*, the monetary union of Austria-Hungary, the failed project of a currency union between Austria and Italy in the 1920s, *Belgium-Luxembourg Economic Union*, *CFA Franc Zone* (CFA), *East African Community* (EAC), *Common Monetary Area*, *East Caribbean Currency Area* (ECCA). The last four co-operations still exist.

We can identify two basic forms of formal monetary alliances: At one extreme is the full monetary union or currency union: all monetary authority is formally centralised in a single supranational agency and separate national moneys are replaced by a single common currency. At the other extreme, is a simple exchange-rate union. This ostensibly freezes mutual currency values but otherwise leaves monetary management largely to the discretion of individual governments. Actual manifestations are located along a continuum between two alternatives.

It is frequently argued that currency unions that did not go hand in hand with a political and fiscal union collapsed (LMU), while models of monetary integration such as that completed in Germany after 1871 in the course of political integration, have proven stable.[9] Up to now, the debate about the functional mechanisms of monetary unions in the real world has ignored the Habsburg Monarchy. The Monarchy was not only a customs union and a single market with well developed trade, capital and service relations, it was also a currency union with a joint national bank and a joint monetary policy.

While there are unmistakable differences between the political structures of the European Union and the Dual Monarchy, the monarchy still provides a number of starting points for discussing potential problems of the *European Monetary Union*: In the period when it had a single currency, the Dual Monarchy was not a unitary state. The Compromise of 1867 had once

7 Salin 1984.

8 Hagen, Jürgen v.: Monetäre, fiskalische und politische Integration: Das Beispiel der USA. In: Währungsunion und politische Integration, Frankfurt/M.: Knapp 1996, pp. 35-51; Hagen, Jürgen v. / Neumann, Manfred J.M. : A Framework for Monetary Policy under EMU. In: Deutsche Bundesbank (Ed.): Monetary Policy Strategies in Europe. München: Vahlen 1996, pp. 141-165 .

9 Tietmeyer, Hans: Europa auf dem Weg ins neue Jahrtausend. In: Deutsche Bundesbank, Auszüge aus Presseartikeln 38(1997), p. 4; Theurl, Theresia: Eine gemeinsame Währung für Europa. 12 Lehren aus der Geschichte, Innsbruck: Österr. Studien Verl. 1992; Theurl, Theresia: Sprengsatz war immer das Budget, in: FAZ , Nr. 186 v. 12.08.1995, p. 13

more granted the Hungarian half of the monarchy a significant degree of autonomy. In addition to a few areas that were the responsibility of the monarchy as a whole, there were many more where competence was reserved for the separate halves of the state. Joint action in these areas required bilateral agreements and corresponding coordination in both the Kingdom of Hungary and the Austrian half of the empire. Thus there was a joint monetary policy. However, economic policy was the autonomous preserve of the halves of the Monarchy and was based on their individual interests. There were joint borders and a few shared areas of responsibility (such as infrastructure policy), but both Austria and Hungary had their own budgetary and fiscal policies and the different interests made themselves felt here. However, it was other disparate ethnic interests resulting from the constitutional structure of the two halves of the state that developed greater dynamics.

Ethnic conflicts left clear traces in the development of the Dual Monarchy. In the relationship between the two dominant nations within the empire, the temporary compromise provided an institutional and organisational instrument for achieving a periodic negotiated compromise between the opposing interests of the Hungarian and Austrian halves of the monarchy. This functioning instrument however, only covered the *meta level of the largest unit* in each half of the empire. It did not solve the ethnic tensions *within* each half of the monarchy. While the ethnically motivated clashes of interests did not stop the process of economic modernisation, they did prevent the Dual Monarchy from modernising at the same pace as the West European states. The emphasis on ethnic or nationalist goals, so goes another argument, led to locational errors, as parallel structures were built up in areas where there was no market to support them.

The dawning of the 20$^{th}$ century coincided with the introduction of the Austrian crown as legal tender in the Austro-Hungarian Empire. However, this was the final stage of a monetary reform, the roots of which dated back to 1867. This was the year when the Dual Monarchy withdrew from the currency union with the members of the German customs union and Liechtenstein, which the Austrian Empire had entered into in 1857. Within the framework of the Austro-Hungarian Compromise of 1867, Austria and Hungary had to implement a single currency area and joint monetary policy. The first major step toward currency reform was taken in 1892 with the introduction of the gold standard. This currency union did not function without problems and the policy of the Austro-Hungarian Bank was a popular target for criticism by a number of social and ethnic groups.

There were also ethnically motivated attempts to influence monetary policy. These ranged from conflicts about the organisational and personnel structure of the national bank to questions pertaining to the structure of currency reform and the resulting position of the central bank within the political system, an appropriate foreign exchange policy, the structure of the bank's operational business, the scope and regional distribution of its branches and even the design of banknotes.

On occasions there were also violent, nationally coloured attacks against the introduction of the gold standard, brought forward by Slavs protesting against the supremacy of the Magyars and Germans in the political, cultural and economic life of the monarchy.

During the parliamentary debates about the introduction of the gold currency the Austrian government was criticised for having been too compliant toward the Hungarians:

> The Hungarian government is the pilot who directs the ship [...], the Austrian finance minister is merely the stoker who feeds the engines with our taxes.[10]

Czech members of the *Reichsrat* accused the Hungarians and Germans of reaching an agreement at the expense of the other nations. A Czech spokesman said:

> This absolutist centralism, framed by Germanising allures has also produced the almost immortal twins, i.e. a chronic deficit and paper economy![11]

Another example of Czech polemicism:

> Ask all the peoples of Austria and they will tell you that it is a capitalist dungeon, but the Slavs consider it a Dantian inferno, at the gates of which all national hopes wither![12]

Czech circles had long demanded equality with Vienna and Budapest. In 1885 the Chamber in Prague demanded that the National Bank set aside at least 50 mio. Gulden for Bohemia alone

10 Stenographische Protokolle über die Sitzungen des Hauses der Abgeordneten des österreichischen Reichsrathes im Jahre 1892, XI. Session, Bd. 6, 6994; Pressburger, Siegfried: Österreichische Notenbank 1816-1966. Geschichte des österreichischen Noteninstituts. Wien: Eigenverl. 1966, p. 556.

11 Stenogr. Protokolle 1892.

12 Stenographische Protokolle 1892, XI. Session, Bd. VI, 6998.

13 Cf. Good, David F.: Der wirtschaftliche Aufstied des Habsburgerreiches 1750-1914, Wien: Böhlau 1984, p. 160f.

and that the Prague branch of the Austro-Hungarian Bank should be given equal status as a headquarters with Vienna and Budapest. They also demanded that banknotes be printed in both German and Czech.[13] The reactions to the resolution provide an additional illustration of the faultlines created by ethnic conflicts. While the Czech dominated Chamber supported Prague's demands, the German dominated Chamber in Reichenberg criticised the resolution for carrying the national conflict into the purely economic sphere of banking.[14]

In the end, the gold currency was introduced with the support of the Poles. After that, it was no a longer a subject of controversy. Thus it was not the exchange rate policy that came under fire from national conflicts. The conflicts focussed far more on the symbols of power, participation rights and the national bank's monetary policies within the empire. The graphic design of the bank notes and coins was probably of secondary importance for the development of monetary policy. The appointment of the national bank directors and the distribution of power in the formulation of monetary policy played a far greater role. A number of far-reaching changes took place here in the years of the common gold currency. A rigid parity was created between representatives of the Austrian and Hungarian halves of the Monarchy among leading figures at the bank and at the General Council. Demands made by the national minorities of the two parts of the empire were ignored.

The most important provisions of the statutes of the Austro-Hungarian Bank regulating parity from 1899 are:

1. The duties of the national bank were precisely defined for the first time. Article 1 now states:

   > In the exercise of its statutory duties it is incumbent upon the Austro-Hungarian Bank to regulate the money supply, facilitate settlements and to satisfy commercial, industrial, trade and agricultural credit requirements, but especially to maintain cash payments following equally in both territories of the monarchy.

   In Article 1 the newly introduced parity was even acknowledged in the seal of the bank. The coat of arms of each half of the monarchy were to set next to each but separately.
2. The meetings of the *General Assembly* (*Meeting of Shareholders*) were to be held in Vienna or Budapest, depending on whether the majority of members were Austrian or Hungarian citizens.
3. Of the twelve Directors (*Board of Directors*) six had to be Austrian citizens and six Hungarian citizens.
4. Parity had to be maintained in the choice of auditors and their substitutes. Parity also had to be maintained in the choice of the executive and other committees.
5. The deputy governors were to be appointed by the monarch upon recommendation of the Austrian and Hungarian finance ministers.
6. The head offices in Vienna and Budapest now had the exclusive right to fix bank lending in the territory concerned, respectively, to determine the limits to which individual companies and individuals were permitted to use bank loans (credit ceiling). They were entitled to open or close bank branches for discount business at locations they considered suitable, moreover, they also had the right to grant companies and individuals the right to use bank credit through correspondent banks.
7. The two governments appointed one commissioner each and one deputy: these officers monitored the bank on behalf of the government in order to ensure that it complied with the law and statutes, and acted in conformity with the interests of the state. They were entitled to attend all meetings of the permanent committees of the directors, and the head offices in an advisory capacity. They had to be granted all necessary insight into the management of the bank.

   In the event of an objection on the grounds of state interests the Imperial ministry concerned had the right to make the decision.
8. The *k.k. Landesgericht* in Vienna, respectively the *Royal Court*, in Budapest was to settle disputes which were not subject to regulation by the government commissioners.

Changes in parity and the increased influence of the state had no influence over the stability oriented policy of the national bank before the outbreak of the war. Obviously a culture of stability prevailed.

Instead objections were directed against bank lending policies. The predominance of German influence in the central banking apparatus of the Monarchy's economy led to repeated accusations of discrimination against non-German borrowers and regions. Good has concluded that there was indeed a national bias on the capital markets, which however, lessened after the currency reform. However, this conclusion has not remained undisputed.[15] What is crucial for our terms of reference is that such discrepancies in the terms attached to loans were noticed and exploited for political purposes by contemporaries. Hungary received corresponding concessions. The expansion of the national bank's branch network and other steps under banking law may be interpreted as reactions to this kind of *Monita*. However, none of this had a perceptible effect on the national bank's policy of stability before World War I.

Non-German groups started a number of initiatives to reduce this alleged discrimination. Czech nationalist policies deliberately sought to promote economic competition. Nationally oriented Czech policies attached particular importance to the development of a Czech banking system which was then given a key role in promoting Czech controlled companies. The most important step in this direction was the establishment of the *Živnostenská banka pro Čechy a Moravu* (1869), founded for the explicit purpose of promoting and financing the development of Czech owned business enterprises.[16] The influence of the *Živnostenská banka* was even felt in the South Slav nationalist movements.[17] The German-Austrian credit institutes reacted to this development by opening new subsidiaries that were largely independent of Vienna.[18]

Thus on the eve of World War I the Austro-Hungarian Bank could look back on an extremely successful monetary policy. The transition to the gold currency meant the end of a long period of monetary uncertainty and firmly anchored the monarchy in the international monetary system.[19] The exchange rate of the crown is marked by a remarkable stability in the years between 1892 and 1913. Fluctuations from coin parity was less than 0,5 % for the rate of exchange, and less than 1 % on the spot exchange rate.[20]

One the one hand, the Dual Monarchy was undergoing a process of economic modernisation, on the other, the antagonisms between the different national groups in the multi-national state were becoming stronger all the time. The accelerating process of economic integration in the second half of the last century was unable to prevent the political disintegration of the empire. The process of economic integration possibly even fuelled the ethnic conflicts, »because most people experienced this integration process as something negative, the Alpine peasants just as much as the Galician or Hungarian tradesman, in spite of conscious policy efforts to remedy the economic backwardness in underdeveloped regions.«[21] In those regions that lagged behind economically, there was a widespread perception of economic discrimination, eastern regions such as Galicia or Hungary that enjoyed a strong political influence believed they were being economically discriminated against, in spite of the fact they enjoyed great benefits from the huge economic area. The southernmost regions of the empire felt most strongly discriminated against although they profited greatly from the Monarchy's geographical orientation. In turn, those regions that were undergoing rapid modernisation felt they were being politically discriminated against. Thus the Bohemian and Moravian lands could point to dynamic economic growth but lacked the commensurate political influence. For many German speakers, »German« became the embodiment of modernity, Austria symbolised stagnation. They believed the German Reich was enjoying dynamic development in all areas, not least of all economically, while Austria »muddled through«.[22] The inadequate political reception of the economic changes was one of the major causes for the collapse.[23] This supports the argument that political integration can harm the cohesion of a union if the potential for vertical conflict is too great.

Monetary policy and its results affect different social segments and groups of economic subjects differently and have distributional and social policy consequences. For this reason, interest groups try to influence the formulation of the monetary order and its monetary policy. In the Habsburg Monarchy this expressed itself in the competition between the political representatives of the various nationalities for mobile resources. To the extent that they possessed their own external institutions (laws, state ordinances, etc.), as in the case of the Germans

14 Good, David F.: National Bias in the Austrian Capital Market before World War I. In: Explorations in Economic History 14 (1977), pp. 141-166, here p. 145.

15 Cf. Komlos, John: Discrimination in the Austrian Capital Market? In: Explorations in Economic History 17 (1980), pp. 421-427.

16 Rudolph, Richard L.: Banking and Industrialization in Austria-Hungary. The Role of Banks in the Industrialization of the Czech Crown Lands, 1873-1914. Cambridge et al.: Cambridge UP. 1976, esp. p. 75ff., p. 122ff.

17 Cf. Matis, Herbert: Österreichs Wirtschaft 1848-1913. Konjunkturelle Dynamik und gesellschaftlicher Wandel im Zeitalter Franz Josephs I. Berlin: Duncker & Humblot 1972, p. 392f.; Herbert Kramer: Die Italiener unter der österreichisch-ungarischen Monarchie. In: Wiener Historische Studien. Bd. 2. Wien, München 1954, p. 83.

18 Cf. Pressburger, Siegfried: Österreichische Notenbank 1816-1966. Geschichte des österreichischen Noteninstituts. Wien: Oesterr. Nationalbank 1966, p. 204; März, Eduard / Socher, Karl: Währung und Banken in Cisleithanien. In: Brusatti, Alois (Hg.): Die wirtschaftliche Entwicklung [Wandruszka, Adam / Urbanitsch, Peter: Die Habsburgermonarchie 1848-1918. Bd. 1&, Wien: ÖAW 1973, pp. 323-368; März, Eduard: Österreichische Industrie- und Bankpolitik in der Zeit Franz-Josephs I. Am Beispiel der k.k. priv. Österreichischen Credit-Anstalt für Handel und Gewerbe, Wien, Frankfurt/M., Zürich: Europa 1968; Scheffer, Egon: Das Bankwesen in Österreich. Entstehung, Entwicklung, Bedeutung für Wirtschaft und Geist. Wien: Burgverl. 1924 (Deutschösterr. Bücherei 4).

19 Zur Entwicklung des Goldstandards cf. Eichengreen, Barry: Globalizing Capital. A History of the International Monetary System, Princeton/N.J.: Princeton UP 1996.

20 Cf. Tables for Currency Statistics, 3rd Ed. Vienna 1903-1906.

and Hungarians they also made use of them. Competition using external institutions was a characteristic feature of the rivalry between the Austrian and Hungarian lands. A second component, the only one available to the national minorities in the two halves of the empire, was competition using internal institutions (social mores, morality, language etc.: *Pláč koruny české*). This was done by criticising real or imagined political, social and economic discrimination as well as emphasizing values such as national self-determination, protection of ethnic, cultural or linguistic identity and cohesion etc. The ethnically oriented organisations pinned their hopes in a new definition of the citizen that no longer emphasized the position of the individual as a citizen, but his role as a member of an ethnic group.

External institutions such as an economic order are supported by the population when their substance is in harmony with the society's internal institutions. Only then is their legitimacy and survival guaranteed. The history of Austria-Hungary provides a wealth of illustrations for this theory. Of course, dualism stood for the tension between the constitutional entities Austria and Hungary. It is also beyond dispute that the construction created by the Compromise also contained retarding elements. But the regular re-negotiation of the Compromise eased, at least to some degree and temporarily, the tensions between Vienna and Budapest caused by the mutual accusations that each party was getting the better of the other. This was because the negotiations permitted new compromises to be found for the economic and monetary union on a regular basis. The national bank retained its responsibility for the entire monarchy and both halves of the empire became equal partners through parity in the management of the bank and intervention rights. In this respect, the lack of a strong central power tended to favor a monetary consensus.

In their analysis of the limits of institutional competition in the development of the *European Economic and Monetary Union* Daniel Kiwit and Stefan Voigt have reached the conclusion that external institutions that discriminate are frequently supported by a society's internal institutions. If this argument is applied to the ethnic interests within the Dual Monarchy, evidence can be found to support this position. This is true both of the successful Czech efforts to develop their own banking system and industrial structure as well as Hungarian industrialisation policies.

The ethnic conflicts *within* each half of the monarchy, both of which were multi-national states in their own right, were a highly explosive force. The »kingdoms and lands represented in the *Reichsrat*« formed a kind of political union in which the Germans played a dominant role, while the other nationalities saw themselves pushed into a subordinate position. Depending on the connotation, economic, social and structure, they emphasised either the economic or political discrimination.

The national bank's monetary policy provided a solid foundation for economic process. The Dual Monarchy certainly did not collapse as a result of economic failure. Indeed, much of the evidence about the performance and structure of the monarchy suggests that the political institutions had great difficulty adapting to the constraints imposed by modern economic growth. This conclusion, that has already been put forward by David Good has led one reviewer to make the following comment:

> The conclusion that one might draw from Mr. Good's study is that successful integration in the network of a single market can do nothing against disastrous political disintegration. In this connection, symbols of state power such as a national bank can be instrumentalised for »ethnic goals.« In this context, personnel issues or the graphic design of bank notes can become particularly explosive forces. Consequently, economic rationalism has no far-reaching legitimising effect.[24]

The destabilisation potential of the Habsburg Monarchy lay largely in the inability of the political elites in Vienna and Budapest to adequately adapt the political system to the economic and social changes. The inability of the political and administrative elites to promote the development of the monarchy's political system by implementing far-reaching reforms led to a »modernisation backlog.« The state was certainly able to contribute to economic integration with its policies, not least of all with the successful currency reform of 1892 and the creation of the single crown currency area. This started a process that benefited all regions of the Monarchy, although of course, to different degrees. (As late as 1908, Edvard Beneš, later the founding father of Czechoslovakia, thought it inconceivable that the Dual Monarchy could collapse for economic reasons). While the common view that the economic interests of the individual nationalities automatically demanded the preservation of the economic and currency union is true from a purely economic perspective, economic reality was not a strong enough force. Neither the economic union nor the single currency were able to give the peoples of the Monarchy a shared ideal. The processes that led to the disintegration of the Monarchy had started long before the war. In some respects, this disintegration even seems to be a consequence of this dilemma. Economic prosperity and a successful monetary policy, do not it would appear, guarantee that integration can never be reversed.

Monetary unions are only feasible for homogenous economic structures with no political and fiscal integration. The greater the heterogeneity, the greater the need for fiscal or political integration to stabilise the monetary union. This kind of widespread position put forward by Hagen, Cohen or Theurl has to be modified. The creation of a central power produces new potential for vertical conflicts and this conflict potential grows with the increasing degree of centralisation. The form in which relations between the Austrian and Hungarian lands of the Habsburg empire were regulated demonstrates that flexible bargaining systems can have a stabilising effect even where there are strong exit options. Together with ideological fossilisation, the unwillingness of the German political class in Austria to take the same road of sustainable compromise with the peoples within their own half of the empire as they had done with the Hungarians, was a major factor behind the collapse of the »model of a multi-ethnic state.«

If one accepts the conclusion from the difficulties and failure of the Habsburg Monarchy that economic success and successful integration through a single currency and a common market cannot prevent the disaster of political disintegration, one must – applied to the Economic and Monetary Union – attach a great deal of importance to the status and development of the political institutions. The demand that monetary, fiscal and political union should be linked is certainly not justified on the basis of the historical evidence. This is once more proven by the development in Austria-Hungary. For this reason, the cultural, social and ethnic diversity of the area of European integration and an adequate institutional and organisational structure should be given priority in future research and policy agendas. Of course, on the other hand, Keynes' insight that democratic societies with no generally perceived economic success cannot survive, applies equally.

21 Sandgruber, Roman: Ökonomie und Politik. Österreichische Wirtschaftsgeschichte vom Mittelalter bis zur Gegenwart. Vienna: Ueberreuter 1995, p. 311.

22 Cf. ibid., p. 313.

23 Cf. ibid, p. 311.

24 Milward, Allan S.: Review of David F. Good, *The Economic Rise of the Habsburg Empire*. In: Economic History Review 38 (1985), p. 471.

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