DR-11
The Miracle of Viability

Vienna
II, Obere Donaustrasse 57/1/6
17 April 1959

Mr. Walter S. Rogers
Institute of Current World Affairs
366 Madison Avenue
New York 17, N.Y.

Dear Mr. Rogers:

Industrial production in Austria today is over 2.5 times that of 1937; in some fields (iron and steel and light metals) it is four to seven times as great.

Over 65% more Austrians (875,000) are employed than in 1937, although the population is up less than 15%. In 1937 a third of the labor force was unemployed; today there is effective full employment.

Industrial productivity in 1958 was 140% of the 1937 level. In 1950 it had been only 92%, in 1955 it had been 127%.

Austrian agriculture is providing 85% of the domestic demand for foodstuffs, in a land that before the First World War grew only two-thirds of its food requirements. To accomplish this 17% fewer are employed on the land than in 1937, 6% less land is cultivated; but worker- and land-productivity are up to 151% and 134% respectively.

Foreign trade is twice the pre-war level, despite world market developments strongly disadvantageous to Austria's traditional exports.

The number of overnight stays by foreign visitors reached 20 million in 1958, three and a half times the number recorded in 1937 - despite the fact that Austria now occupies an out-of-the-way geographic position and has lost the East European trade that before the war made up 42% of all foreign visitors.

The balance of payments in 1958 showed a $161 million surplus, the highest ever despite a fall in the foreign trade level.

The Austrian Gross National Product, which in 1946 was scarcely a third of the best pre-war figure, reached 152% of it by 1954, and 171% by 1958. National income, in constant prices, increased from 56.2 billion Schillings in 1951 to 79.1 billion in 1958.

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In this half-page of dry statistics is the profile of the Austrian edition of the famous German economic "miracle."

The West German achievement, however formidable, is not inconsistent with the generally accepted view of Rhineland industrial potential and German economic efficiency. The Austrian recovery, however, runs head-on into the two most generally accepted Western ideas about this little country: that stripped of her Danubian empire, these nine Alpine provinces are economically "non-viable", and that in Austria

Gemütlichkeit triumphs conspicuously over efficiency, to the delight of tourists and the despair of economists.

That is what makes the Austrian story astounding and these statistics, which read almost like a progress report on a Communist Five Year Plan, worth a second look.

The comparison with the German "Wonder" stands examination. In West Germany the average increase in the Gross National Product between 1948-1954 was 9.6% a year. In Austria in the same period it was 9%, and in 1954 and 1955 the Austrian advance reached 10%. In the United States in the same period the growth rate was 4.4% (when population growth is reckoned in, 2.7%), in Great Britain it was 2.4% (2.1% per head).

It should be added that, to the casual foreigner coming here for the first time, this progress hardly shows. This is still a poor land. The per capita income is still the third lowest in Western Europe - only Spain and southern Italy follow - and there is a standing temptation for the best people to go to Germany in search of better pay. Astonishment is reserved for those who knew Austria in 1924, 1934, or 1948. And even then, if the visitor has returned to "fight the system" for a new house, or to establish a business, or just to do business, he is apt to wonder (in angry frustration) how any progress was ever accomplished, and to doubt the cold statistics.

But the statistics are fair. Booming consumption levels, new (if often shoddy) construction everywhere, an investment rate until 1956 of 18-24% of the national income, cars on the roads and refrigerators in the kitchens, and savings deposits growing at an explosive rate (4.7 billion Schillings in 1958, 14% more than in the preceding year) - all are proofs easy to come by.

In the First Republic it was quite different. One of the best textbooks on the interwar years (Chambers, et al., This Age of Conflict) put it this way:

"That story is rather one of hunger, humiliation and hopelessness. The German remnant of a once extensive empire was reduced to a demoralized capital city and a truncated, inadequate hinterland. The residue of ancient charm and culture, arts and music - 'the wistful romance and nostalgic legend' - this heritage of great days was a sorry husk in a life that had become weary and futureless. The Treaty of St.Germain wrote the inexorable finis, not only to imperial glory but even to an economically wholesome existence.... For the new Austria there was nothing left but an all-pervading negation of purpose. If she was now to continue to exist at all, she was to do so at the behest and in the interest of a group of Powers who refused to let her die."

C.A.Macartney, writing of this Austria in 1926, commented that French fear of the Germans on the Rhine was "an insufficient reason for condemning Austria to be alive."

So there arose the legend of the Lebensunfähigkeit - the non-viability - of Austria.

The problems were real enough. The disintegration of the Austro-Hungarian Monarchy in 1918 had with one abrupt blow stripped the Alpine provinces, with their intensely-developed industrial economy, of their normal domestic sources of raw materials and of their domestic market as well. The new, resentful, strongly nationalistic succession states attempted to build their own industries, and closed their borders with high tariffs against the Austrians. As rapidly as they could, they withdrew assets from the imperial banking center that Vienna for a time remained, and even the boom years of the 1920's saw a succession of bank failures in Austria.

Told of the plight of Vienna, the "hydrocephalus" (population two million) of little Austria (population six million), Czech President Benes said: "Let the Austrian capital shrink to a million people." Too many Austrians in the provinces at this time were inclined to agree. Vienna stood isolated even from its own remaining hinterland, and the resentment of country and capital for one another is another sorry chapter that had its economic side-effects in the history of the First Republic. It was part and parcel of the conspicuous lack of any national self-consciousness that is the theme of everything that has been written about those years.

The Director of the Austrian Institute for Economic Research, Dr. Franz Nemschak, describes the economic consequences of this First Republic psychology this way:

"After the Treaty of St. Germain had forbidden the Anschluss with the German Reich, the people, with an almost inconceivable passivity, let the economy move toward catastrophe, as if in this way to demonstrate to the Entente powers the non-viability of Austria."

There followed inflation and starvation. The country was bankrupt and then was saved only by a League of Nations loan late in 1922 - the first such experiment in inter-governmental help for a sick nation. Then, her currency stabilized, Austria participated marginally in the boom of the 1920's. But the Republic was still regarded as provisional and little effort was made to adapt the economy to her present situation. Unemployment never sank lower than 10% and would have been higher but for the large private armies maintained by the political parties.

With the Great Depression - which was brought to Central Europe by the collapse of the Rothschilds' Credit Anstalt, the last of the great Vienna banks, in May 1931 - the feeble Austrian economy sank once more into confusion and passivity and only began to recover in time for the German invasion in 1938. It had never been a going concern, and most of its inhabitants believed it never could be. That this defeatist attitude and the continuing bankruptcy were a vicious circle was irrelevant; most Austrians welcomed the Anschluss as at least the end of hopelessness. That many discovered in a matter of months how wrong they had been in welcoming the Germans is relevant to the story of the Second Republic, not to that of the First.

The economic success of this Second Republic can only be appreciated against this dreary background of the "non-viable" first one.

In fact the new Austria of 1945 began life in a much harder world than the one that had faced the First Republic in 1918. Then the factories, the railroads, the farms and the buildings had emerged from the World War largely intact, the men had returned in a matter of weeks or months from the front and from prisoner-of-war camps. After the Second War it was far different. The eastern provinces, where most of the industry and most of the arable land is located, had suffered heavy bombing and then invasion and Soviet occupation. Vienna was badly damaged. Industrial Linz had lost a third of its 44,000 buildings. The industrial town of Wiener Neustadt, where Messerschmidt had had an aircraft plant, had been almost leveled: only 18 houses were intact and its population had been reduced from 45,000 in 1944 to 860 in April, 1945. Refugees and foreign armies pillaged, while the Austrian men themselves were months or years in finding their way back from the front or from prisoner-of-war camps in America and Siberia (some hundreds, captured by the Russians, are still not home).

On top of all this lay a foreign occupation that was to last ten years. For six of these years the Austrians had to bear the costs. In the early months recovery was impaired by restrictions between the occupation zones. (For a time a permit was needed in four-power Vienna to send a package from one side of the Mariahilferstrasse - French Sector - to the other - American Sector. This is the principal shopping street of the city!) Bothersome restrictions continued long after between the Soviet Zone and the west. (At least as late as 1953 a phone call from Rankweil, in Vorarlberg, to Switzerland, five kilometers to the west, had to go through Vienna, 650 kilometers to the east, for monitoring by the Russians.)

This then was the situation facing Austria in 1945: a feeble economy badly torn by the war, in the middle of a wrecked Europe, occupied by four foreign powers. Her traditional manufactures had been light consumer goods, for which there would be little European demand for years to come. Her traditional business concepts, involving small turnovers and large profits, did not fit the modern world. She was a country with little reason to be optimistic about the future. Germany had, it is true, received a slightly worse wartime thrashing than Austria, but the world-renowned foundations of German economic strength were still there, under the rubble. Austria had never had such foundations.

The economic aspects of the Anschluß itself were to prove a mixed blessing. The Germans poured large sums into their Ostmark, and many of the results of this intensive capital investment program survived as assets for the reborn country. But most of these new capital goods suffered from two disadvantages: they had been designed for a war economy, and they had been designed for a Pan-European economy (the Grossraumwirtschaft of Funk and Schacht).

The three most important of these German-sponsored developments illustrate the second disadvantage very well: they were the Hermann Goering Steel World at Linz on the Danube, the aluminum works at Ranshofen on the Inn, and the rapid enlargement of the production of hydro-electricity in the mountains of Salzburg province, Tyrol and Vorarlberg.

The Linz steelworks were located with an eye on the coal of Bohemia, Silesia and Poland and the iron ore of Lorraine and West

Germany. After 1945 Linz was virtually excluded from Czech or Polish coal, and it was uneconomical to import German or French ore. The old established Austrian steel industry in Styria was much better located to use the plentiful and highgrade Austrian ore of the Styrian Erzberg. In a Little Europe complete with tariff walls, the Hermann Goering works looked like becoming a white elephant.

The Ranshofen aluminum plant was located with an eye on Hungarian bauxite and a combination of Austrian hydro- and German thermal-electricity. After 1945 Hungarian ore was unobtainable, and this winter (1958-59) for the first time the plant had a sufficient supply of hydro-electricity (it was a mild winter and the rivers never froze) to continue operating at full capacity during the cold months.

The new hydro-electric developments in the western provinces were connected with the grids of neighboring German states - in Tyrol with Bavaria and in Vorarlberg with Baden-Württemberg - and had no connection with the grid in eastern (industrial) Austria, which under the Germans was connected with Bohemia and Silesia. It took a surprisingly long time to straighten out the wires, and until recently Austria was in the unpleasant position of exporting cheap hydro-electricity to Germany in the west, while importing expensive thermal-electricity from Germany in the east.

When ERP funds began to come in 1949 and some overall national planning became necessary, Austrian officials and their American advisers were forced to decide whether to abandon the Linz and Ranshofen developments as potentially uneconomical, in favor of more traditional Austrian consumer-goods industries. That they decided to continue expansion and modernization of both concerns was based on three considerations: the plants were newer and more modern than anything else in the country, and had already involved a hugh capital investment; the unemployment that would result from shutting them down could not readily be absorbed elsewhere; and for some years to come the heavy demand of a rebuilding Europe for basic industrial products like steel and aluminum would allow even marginal producers to operate profitably. This thinking has so far been justified. The Linz plant - now called the United Austrian Iron and Steel works (VÖEST) and nationalized - is the pride of Austrian industry, and justifiably. It operates five blast furnaces with a total output of 4.7 billion Schillings in 1957, 52% of which was for export. A new process of steel manufacture, the L-D (Linz-Donawitz) process, developed there, has become intensely popular through its economic efficiency in relatively small units. There are at present 13 L-D steel plants in operation in seven countries in North and South America, Asia and Africa, and nine more are under construction.

As Austria faces the changes involved in the Common Market, it seems more likely that the old factories of Styria, with their antiquated equipment, will become uneconomic than that the VÖEST will. In the meantime, all these German-sponsored undertakings, incomplete or adapted to strictly wartime needs, required heavy further financing (from ERP funds) before they could be adapted to the post-war Austrian economic situation.

Austria suffered another disadvantage in the post-war years. In Germany the Soviets occupied the eastern, agricultural provinces. German population and economic strength were concentrated in the Ruhr, Saar and Rhine valleys, all in western hands and open to western aid.

In Austria the Soviet Zone consisted of Lower Austria, the Burgenland and the industrial sections of Vienna. The area included most of the country's grainland, but it also included the oilfields at Zistersdorf and over 65% of those employed in industry and trade. (Vienna alone accounted for over 33%.) In the western provinces lay most of the steel industry, the tourists, half the textile industry, and most of the hydro-electric potential; almost everything else was in the Soviet Zone, closed to reconstruction with ERP funds.

Moreover, Soviet exploitation of their zone was a never-ending process. Estimates of the amount extracted vary, but it seems fair to say that the Russians took out from their two provinces approximately as much as the Americans, through ERP, poured into the rest of the country. This was a problem with which no other OEEC country had to cope.

Thus between 1948 and 1954 ERP funds totalling approximately $1 billion were pumped into the country (the grand total to the present is about $1.6 billion). Meanwhile, on June 30, 1954, Federal Chancellor Raab estimated the computable losses to the Austrian economy from the occupation to the beginning of that year as about $680 million. This was in addition to the Red Army dismantling of industry (as "German assets" and therefore legitimate war booty) in the first year after the war, roughly estimated at another $300 million.

Another way of figuring the loss: The Austrian Institute for Economic Research estimated that in 1954 the Russians exported, without Austrian control or duty, $130 million worth of Austrian goods (including petroleum) to the USSR and the Satellites. Against this was reckoned about $50 million in goods brought into the country, equally uncontrolled, and an estimated $15 million in Austrian Schillings bought by the Russians against western currencies to cover their occupation costs and upkeep of confiscated industries. A net earning to the Soviet Union (and loss to Austria) of $65 million in one year.

Since all of these Soviet economic dealings were "under the counter", all such calculations must remain intelligent estimates.

This Russian exploitation was primarily managed through two organizations: the SMV (Mineral Oil Administration) and the USIA organization (the letters are the initials of the Russian title meaning "Administration for Soviet Property in Austria").

The valuable Austrian oilfields at Zistersdorf and elsewhere in the Marchfeld east of Vienna had only just begun to produce in the last years before the Anschluss. Exploration was in the hands of foreign oil companies, led by Socony Mobile. The fields were naturally extensively exploited by the Germans during the war. After 1945 the Soviets, while recognizing the title of the Western oil companies to the limited number of wells they had dug before 1938, took over the far vaster fields explored by the Germans as "German assets". They raised production from 846,600 tons, to which it had fallen in 1946, to 3,200,000 tons in 1952, and Austria became (and remains)

Europe's second largest oil producer and the only country in Western Europe that could supply almost all of her domestic needs.

Unhappily, the impressive results achieved by the Russians were won only by exploitation methods that were seriously damaging to the fields in the long run, and production has of necessity declined since the Russians left. During the occupation, however, Zistersdorf was a spectacular source of profit to the occupying power. Two thirds of the output was shipped east, largely to the Satellites, while the remaining third was sold back to the Austrians for their own use. In 1953 the value of the oil removed in this way was approximately equal to the Austrian trade gap of that year.

The remaining enterprises confiscated by the Russians - a conglomerate of large, medium and small firms of all sorts that had been under German ownership in 1945 in the eastern provinces (many of them actually confiscated from their original Austrian owners, or bought under pressure, by German Nazis) - were lumped together in the USIA organization. In 1951 there were probably 471 of these enterprises, of which 351 were commercial and 100 agricultural. The latter made the Soviet Union for ten years the biggest landowner in Austria.

USIA had a peculiar and checkered career and ended by being a white elephant for the Russians, largely through mismanagement and the refusal of the Soviets to install new plant or carry out any capital improvements. The problems of these run-down businesses were inherited by the Austrians when the USIA firms were "bought back" in 1955, and they have not all been solved yet.

In the end many of the USIA enterprises had already gone bankrupt, until at the beginning of 1955 only about 280 remained open. In an effort to stop the rot by providing ready cash to the decaying firms, the Soviet authorities established in 1953 a completely original chain of USIA retail stores in Vienna and their occupation zone. These shops peddled bootleg caviar, vodka, automobiles, and other Eastern-made luxury goods on the Austrian market, free of Austrian customs control and therefore at prices that could not be undercut; the profits (in Schillings) were ploughed back into the USIA industries to try to keep them going. The Austrian government did what it could to discourage buying at these USIA shops - including a refusal to issue license plates for Czech automobiles sold without Austrian duty through USIA. It was really a most peculiar business for the Russians to be in, and there is some evidence that the Soviet authorities began to realize this toward the end.

It was the oil and most of the output of the USIA industries (only a small percentage of which was sold in Austria) that, shipped east, made up most of the $130 million that the Institute for Economic Research estimates was removed in 1954, as a sample year. Together SMV and USIA provide an interesting study in latter-day economic colonialism, Soviet style.

The primary long-term consequence of the Soviet occupation of Lower Austria and much of Vienna was the westward relocation of much of Austrian industry (traditionally concentrated in what had become the Soviet Zone) and, consequently, of much of the industrial labor force. An additional factor tending in the same direction was that the Americans, who provided almost all the development funds in the 1949-54 period through ERP, naturally tended to concentrate their efforts in their own zone of occupation - Salzburg province and Upper Austria. The British-occupied provinces of Styria (traditional home of heavy, as contrasted with consumer-goods, industry) and Carinthia were also relatively neglected.

A further consequence was that the Austrians themselves, after the occupation ended in 1955, have attempted to concentrate on the former Soviet Zone, to help it catch up with the national standard.

The Austria that became fully independent again less than four years ago inherited the economic consequences of the last forty years of Middle European history: the disappearance of the Danubian "common market" with the Monarchy in 1918, the failure of the despairing First Republic to adapt to changed conditinns, the changes wrought by absorption into the Greater German economic system, the destruction of Europe in 1943-45, and the combined effects of the European Recovery Program and the Soviet occupation. The development since 1955, the problems and continuing weaknesses of the economy today, along with its strengths, are a direct continuation of these last chapters.

The major structural features of this latest development have been (a) an approach to agricultural self-sufficiency, (b) a shift in the types of manufactures that has made the country's principal exports today iron and steel, lumber, paper and board, metal goods, industrial machinery, chemical products, and electro-technical machinery (in that order), and (c) a geographic shift of industry and population to the west. At the same time the orthodox conservative financial policies instituted before the occupation ended have continued to be successful in maintaining a stable currency, and a gradually rising real income level without excess inflation, while encouraging impressive improvements in the balance of payments position.

The economy today is incomparably stronger than that of the First Republic at its best. The term "miracle" has been tediously overused to describe this change here, but the story I have so briefly tried to outline in these pages explains why the term comes so readily to mind when 1959 statistics and living conditions are viewed. The possibilities were actually always there, but their realization must seem miraculous to those who were so firmly convinced that the country was "non-viable".

In the favorable international economic conditions of the 1950's, this reconstructed economy has prospered, and viable Austria seems to have weathered the latest recession with relatively little strain. But there are still fearsome weaknesses and problems, so that it is hard to be really optimistic. These are a subject for another letter.

Sincerely,

Dennison Rusinow

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Received New York April 22, 1959