

THE DEVELOPMENT OF POST-WAR AUSTRIAN FOREIGN TRADE

Vlora Obertinca

University of Library Studies and Information Technologies

***Abstract:** Austria was hit hard by the developments in the Second World War. An economy traditionally supported by a high level of foreign trade, had to adapt quickly to new developments. The Marshall Plan was instrumental in the revival of the Austrian economy. Austria is definitely one of the winners of this plan, if we take into account the number of inhabitants. However, the post-war years were also affected by other factors, such as the Oil Crises. Austria will continue to be careful with its foreign trade policies.*

***Keywords:** Austrian Foreign Trade, exports, crisis, the Marshall Plan, oil*

INTRODUCTION

In the first few years after the end of World War II, foreign trade practically came to a standstill. The problem of reconstruction is clearly reflected in the foreign trade balances of the first post-war years.

The various aid deliveries shape the import. After their expiry and with the transition to ERP help, commercial imports are becoming more and more important.

As early as 1948, the pre-war level of Austrian commercial imports was exceeded in terms of value and further in 1949 also in terms of weight. Imports consisted of almost 90 percent aid supplies from the United Nations Relief and Rehabilitation Administration, which between 1945 and mid-1948 were worth USD 500 million.

RESEARCH METHODOLOGY

The study is subject to the application of analysis, comparative approach, synthesis, and abstraction as the main methodological heuristic toolkit. The conclusions are based on analysis.

RESULTS

The Second World War severed the network of international trade relations and caused a dramatic collapse in foreign trade due to the destroyed infrastructure. In 1946, commercial foreign trade in Austria was only around 18% in value and only around 8% in real terms of the foreign trade volume in 1937.¹

The development of exports took place in two phases: In the first phase from 1945 to 1950, after the resumption of domestic production, the pre-war volume of exports was gradually reached again in 1948 in terms of value and in 1951 in terms of weight.

Austria's foreign trade was mainly carried out with the immediate neighboring countries. Trade with Switzerland, CSSR and Italy in 1946 comprised around 70% of commercial foreign trade compared to 23% in 1937.² The share of exports to Europe was 92% in 1946 compared to 86% in 1937, v. a. that of imports 94.5% compared to 80% in 1937.

After the critical shortage of fuel, fuel and industrial raw materials had been successfully remedied, mainly through imports, and these raw materials became available again for industry, industrial production and, with it, exports of industrial goods were revived.³ In 1950 the export volume again reached the real

¹ Breuss, F. *Österreichs Außenwirtschaft 1945-1982*, Signum-Verlag, Vienna 1983, p. 1

² WIFO, *Austria's economic situation eighteen months after the end of the war*, WIFO monthly reports, vol. XIX (7-9), Vienna 1946, p. 165.

³ WIFO, *Structural weaknesses in Austrian exports*, WIFO monthly reports, vol. 11/1960, Vienna 1960, p. 40.

level of 1937, while Western Europe at that time was already 28% above the pre-war volume.⁴

The first foreign trade contacts with the CSSR, Hungary and Switzerland were pure barter deals. The first export transactions against free foreign exchange were made with Sweden, the USA and France. The most important export goods in the first post-war years were ores and minerals (33.5% share of total exports), followed by metals and metal goods (24.5%). Austria could not use its oil plants because of the Russian occupation. Oil production was strongly promoted in 1938-45, in 1946 the Soviet occupying power declared around 95% of oil and gas production in Austria to be German property due to the Potsdam resolutions and founded the "Soviet Mineral Oil Administration" (SMV) for further oil use. Only after the State Treaty did the oil and gas fields (natural gas) come into the possession of the Republic of Austria in August 1955, which also brought the nationalization laws of 1946 and 1947 (nationalization) into effect. The successor to SMV was the state-run Österreichische Mineralölverwaltung AG (ÖMV) founded in 1955. This is how the exploration of the Upper Austrian-Salzburg Alpine Foreland

On the import side, food came first, followed by coal and coke, as well as chemical products. From 1945 to 1947, Austrian foreign trade recovered only slowly from its complete collapse at the end of the war. The ERP (from 1948-1952) subsequently made the reconstruction easier. The Marshall Plan for the Reconstruction of Europe (ERP), which in 1948 also benefited Austria as a politically western-oriented state with gifts in the form of deliveries in kind (food, raw materials), technical assistance and loans, ushered in an era of export-supported growth. In the first year of the Marshall Plan (July 1948 to June 1949),

⁴ Rothschild, K. Roots and Driving Forces of the Development of the Austrian Economic Structure, in: Wilhelm Weber (Ed.) Austria's Economic Structure, yesterday - today - tomorrow, Berlin 1961, p. 146.

US net aid represented 2.1% of US national income and 4.0% of recipient countries. There was, however, a wide variation in the share in the recipient countries (e.g. Sweden 0.3%, Belgium-Luxembourg 0.8%, but Austria 14% and Greece 14.1%).⁵ Under the Marshall Plan, Austria received USD 958 million until 1955.

The first major exogenous shock to the world economic system was the Korean conflict. The Korean conflict in 1950/1951 brought about the first great world trade boom and in 1951 allowed world trade to grow nominally by 33% after growth rates of 2.5%.⁶ In terms of world politics, this intensified east-west tensions and intensified the "Cold War". The accelerated arms race led to an upturn in the international economy from mid-1950 onwards. However, there was also a shortage of raw materials and thus a rapid rise in prices. The phenomenon of the "dollar shortage" disappeared thanks to huge public and private inventory purchases by the US.

The Korean conflict also left its mark on foreign trade and the balance of payments in the Austrian economy: the upswing in Austrian exports, which started from a low level after the war, subsided in 1949 and only the strong foreign demand after the beginning of the crisis gave it a stronger boost, so that in 1951 the pre-war level with an export volume of 3,843,000 t (3,809,000 t) could be exceeded.⁷ The reduction in Austria's balance of payments and trade deficit in the years 1948-1952 is striking. This is particularly because it has so far been possible to keep the volume of imports, the decline of which had become alarming when aid was reduced, relatively high by gradually increasing exports. However,

⁵ Pechan, Hermann, *Der Marshall Plan; A path to economic cooperation in Western Europe*, in: *The economic unions in their position on national economies and the world economy*, Münster-Berlin-Bad, Godesberg 1952, p. 146.

⁶ 06/25/1950 - 07/27/1953

⁷ Breuss, Fritz. *Austria's foreign trade 1945-1982*, Signum-Verlag, Vienna 1983, p. 2.

it must be taken into account that Austria did not participate in the liberalization of intra-European trade through the application of exceptional provisions, while the expansion of the liberalization of the other countries was beneficial for the development of Austrian exports. The situation given by the reduction in dollar aid was made easier for Austria by continuing to pay part of the occupation costs in dollars. On the other hand, Austria has not yet benefited from the "off shore purchases" applied instead of direct dollar aid.

In commercial imports, the pre-war level of 6,180,000 t was already exceeded in 1949 with 7,628,000 t. As a result, there was a boom on the export side, while imports fell in terms of volume. The real exchange ratio then deteriorated in 1950 and 1951. This is mainly due to the fact that Austria essentially only imported raw materials, the prices of which had risen sharply due to the armament, and finished goods, the prices of which had not risen to the same extent.

During the Korean conflict, the product structure of domestic foreign trade was hardly influenced, but the regional structure was very strongly influenced. The east-west tensions and the ERP aid initiated a feared diversion of Austrian trade flows away from the eastern states to the western states.⁸

After the ERP support expired in mid-1952, commercial imports dominated again from 1955 onwards, which received additional impetus from the genuine liberalization that began in 1953 within the framework of the OEEC. In the same year, due to the significant decline in real imports with simultaneous enormous real export growth, the trade balance was practically evened out.

Such a favorable position in the balance of trade has never existed before and has never been achieved again. In 1955, a renewed economic upswing, together with the beginning of the liberalization of the dollar, triggered an

⁸ Breuss, Fritz. *Austria's foreign trade 1945-1982*, Signum-Verlag, Vienna 1983, p. 8

increased need for subsidies. The low-yielding harvests and the almost complete OECD liberalization triggered an import boom, which again made the domestic trade balance passivated.⁹

In the mid-1950s there were two major global political trouble spots: Hungary and the Suez Canal. Due to the Hungarian crisis, the Austrian Foreign trade with this state almost ceased during the months of November and December. Exports to Hungary recovered quickly in the following year. Imports from Hungary, on the other hand, picked up momentum much more slowly.¹⁰

The Suez Canal crisis had only minor effects on Austria: imports from Asia were only disrupted for a short time. Overall, however, both crises had little impact on Austrian foreign trade.¹¹ The indirect effects of the Suez Canal crisis made themselves felt on the international oil market.

Despite the economic ups and downs, Austria was able to gradually bring its share in the exports of the OEEC countries back to the pre-war level: in 1928 the share was 2.4%, in 1937 2.2%, in 1946 it fell to 0.3%, then rose to 1.7% in 1950 and reached 2.1% in the mid-1950s.¹²

The State Treaty gave Austria a strong foreign trade boom with high real and nominal growth rates in exports, which weakened the trade balance deficit and the share of Western European exports in 1956, at 2.3%, was able to reach the pre-war level again.¹³

⁹ Kohlhauser, Grete, Transformation and Forecast of the Austrian Consumption Structure, WIFO Monthly Reports, 1/1976, Vienna 1976.

¹⁰ WIFO, The economic situation in the individual areas, WIFO monthly reports 12/1957, Vienna 1957, p. 427.

¹¹ The Austrian Institute for Economic Research (WIFO) estimated that the two crises in October / November 1956 reduced Austrian imports by a maximum of 23 million schillings and exports by 71 million schillings. See WIFO, On the economic situation of industry at the end of 1956, WIFO monthly reports 12/1956, Vienna 1956, p. 417.

¹² WIFO, Austria's position in Western European exports, WIFO monthly reports 5/1955, Vienna 1955, p. 192.

¹³ Breuss, Fritz. Austria's foreign trade 1945-1982, Signum-Verlag, Vienna 1983, p.3.

The initial shortage of crude oil on the world market turned into an oil glut in 1957, because after the normalization of the Suez Canal traffic, not only had the supply of crude oil increased, but also the demand in important markets decreased or increased much less than before. Austria, on the other hand, was hardly affected by the short-term oil shortage due to its own oil production.

After the above-average growth in exports between 1951 and 1957 of around 22% per year, development slowed to 6.5% per year in the mid-1960s.¹⁴ The economic development was influenced by the parallel liberalization within the framework of the GATT and the beginning of Western European integration.

Austria's share of Western European exports fell steadily after the peak in 1957 (2.7%) (1958: 2.3%, 1960: 2.2%, 1963: 2.1%). There were various reasons for the slump in Austrian exports: firstly, at the beginning of the 1950s, the export-promoting measures with the schilling devaluations in 1949 and 1953 or with the sales tax reimbursement stipulated by the Export Promotion Act were stronger than afterwards through the stabilization program, and secondly, costs and Price increases slowed and international competitiveness improved. Furthermore, the other OEEC countries hurried ahead of Austria with liberalization: in 1958 the most important sales markets were integrated into the EEC and Austria was increasingly discriminated against.¹⁵ In the 1950s, an international sellers' market still dominated in the demand for raw materials, which suited the local structures. At the beginning of the 1960s, the pent-up demand of the post-war period was covered and since Austria was not one of the most efficient suppliers of raw materials production, the international markets were unable to cope with competition from abroad.

¹⁴ Setback in 1958, strong growth in 1960, 1964 and 1965.

¹⁵ Fitz, M., *The Effects of the English Import Tax*, WIFO Monthly Reports, 38 (4) / 1965, Vienna 1965, p. 138.

The invasion of the CSSR in August 1968 only resulted in a drop in exports in Austrian foreign trade in the same month. In contrast, imports from the CSSR, which consisted primarily of natural gas deliveries, remained high. The revolutionary May riots in France in 1968 barely affected Austrian trade with France.

In terms of imports, too, there was a trend in line with exports. There was above-average expansion until the mid-1950s, but this slowed significantly until the recession year 1967. In 1967/1968 there was another turnaround in export growth, because despite the recession at home and abroad, exports rose sharply, which was favored by increased export subsidies and the tariff dismantling within the EFTA, which was completed in 1966. Discrimination against domestic exports within the EEC area also stagnated after the internal tariff dismantling there was finalized in 1968.¹⁶

Furthermore, there was a strong international economic upswing up to 1971, in which Austria participated under the higher exports and which covered the structural weaknesses of the domestic export economy.¹⁷ In addition, this development was reinforced by some special factors. First, the sales tax on German exports was increased in 1968, which in turn favored Austrian products on both the domestic and international markets, and second, the relative labor cost position developed in favor of Austrian competitiveness.¹⁸

This boom, which in 1971 was only slightly disturbed by the slight international economic slump, lasted until 1973. The prolonged boom not only increased exports disproportionately (between 1968 and 1973 by approx. 14% in

¹⁶ Rothschild, K., *Austria and European Integration*, in: Wilhelm Weber (Ed.) *Austria's economic structure, yesterday - today - tomorrow*, Berlin 1961, p. 147.

¹⁷ Tichy G., *The acceleration of economic growth in the upswing 1967-1971*, WIFO monthly reports, 45 (4), Vienna 1972, pp. 148-160.

¹⁸ Tichy G., Handler Heinz, Suppanz H., *The revaluation of the D-Mark and the consequences for Austria*, WIFO monthly reports, vol. 42 (11), Vienna 1969, pp. 450-457.

nominal terms, compared to 6.5% in nominal terms between 1958 and 1967), imports also experienced a significant upturn due to the boom and some special influences.¹⁹ From February 1, 1968, the equalization tax was raised from an average of 4.7% in 1964 to 7.8% in 1970, which, however, resulted in massive advance purchases at the turn of the year 1967/1968.

Probably the greatest shocks to the global economic system in the post-war period came from the two oil crises in 1973/74 and 1979/80. The first oil shock was the last in a series of waves of commodity price increases in the late 1960s and early 1970s.²⁰ As a result of these price waves, inflation also rose to post-war record levels internationally.

The rise in consumer prices, which averaged between 2.5% and 3.5% for all OECD countries up to the mid-1960s, accelerated steadily from 1968 onwards, apart from slight declines in 1971 and 1972.²¹ The previous post-war high point was registered in 1974 with an annual increase in consumer prices of 13.4% on average in the industrialized countries. Between 1974 and 1980 there was again a decline across the OECD to 8% to 9%.

The first oil crisis and the severe international recession that followed ended the boom phase in 1974/1975, initiated a trend break in economic growth and thus a slowdown in export development. Since there were worldwide fears of a shortage of crude oil and other raw materials, there was a speculative storage boom, especially in the first half of 1974, which in turn triggered an increase in

¹⁹ After an average nominal import growth of 7.5% annually in the years between 1958 and 1967, it accelerated to an average of 15% nominally in the boom from 1968 to 1973.

²⁰ Black, S.W., *Floating exchange rates and national economic policy*, New Haven, Conn. [u. a.], Publisher: Yale Univ. Press, 1977

²¹ The OPEC is an international protection organization against the oil companies to stabilize the proceeds from the crude oil production. The common price and quantity policy vis-à-vis the multinational oil companies helps to increase export earnings. By agreeing funding quotas, it was possible several times to set prices unilaterally. For many of their member countries, any change in quantity or price has a direct impact on the national budget, because crude oil is often the only significant export.

world trade, from which Austria benefited due to its raw and semi-finished goods structure and was able to improve its trade balance.

However, in the following year both imports and exports declined in nominal and real terms. After the second oil price shock, the world inflation rate rose to 12.9%. There are several hypotheses regarding the causes of world inflation. It is sometimes argued that the accelerating global inflation since the mid-1960s was caused by the US because it failed to finance the Vietnam War with appropriate tax increases and instead supported it with the printing press.

Persistent inflation in the key currency country would then inevitably have to be carried over to all other countries through the fixed exchange rate system of Bretton-Woods. Johnson, who takes this view, also believes that the beginning of the end of the Bretton Woods system is related to the acceleration of world inflation.²²

With the sudden increase in the price of oil at the end of 1973, OPEC triggered the worst world recession of the post-war period (1974/75). After the world economy recovered in 1976–1978, the second oil price shock caused OPEC to cause another severe world economic crisis that lasted for an unusually long time (1980–1982).²³ The consequences were record unemployment in the industrialized countries and a crisis in world trade caused by the severe drop in demand.

Both oil crises showed a number of economic consequences that were similar in their sequence and causation pattern. The sudden and sharp rise in the price of the most important energy source in the modern industrialized countries

²² Johnson, K.H., *International Dimension of European Monetary Union: Implications for the Dollar*, Publisher: Board of Governors of the Federal Reserve System, Washington, 1994, p. 437.

²² See Breuss: *Österreichs Außenwirtschaft 1945-1982*, p. 4.

²³ *The Economist*, April 3, 1982, p. 18.

had price, income and balance of payments effects. The oil price shocks worsened the TOT of the oil consuming countries and caused inflation to rise.

In the phase of increasing trade liberalization from 1948-1973, world trade grew by 7% per year in real terms. In the period since 1973, however, the average growth decreased to 3.5%. Furthermore, the oil price crises triggered imbalances in the balance of payments, which resulted on the one hand from the deterioration of the TOT and on the other hand from the negative repercussions of the deflationary effects due to the loss of export demand in the industrialized and developing countries. However, the trade balance losses were mitigated by new export opportunities to the OPEC countries. The OECD put the deterioration in the current account balance in the wake of both oil crises at around 1.25% of GDP for all industrialized nations taken together.²⁴

As a mirror image of the deterioration in trade balances in the industrialized and developing countries, the OPEC trade balances have become heavily activated. The burden on the Austrian trade balance due to the first oil price crisis was put at around 7 billion schillings in 1974 and imports of petroleum products including around 9 billion schillings.²⁵

CONCLUSIONS/DISCUSSION

Austria re-consolidated its economy relatively quickly. Being one of the biggest beneficiaries as well as relying on a long tradition of social harmony, Austria will soon be in a position to develop a very active Foreign Trade.

²⁴ Stankovsky J., P. Wolfgang, Effects of the rise in oil imports on the Austrian balance of payments and the price level, WIFO monthly reports 50 (1), Vienna 1977.

²⁵ See also Stankovsky J., Die Österreichische Erdölrechnung, WIFO monthly reports 48 (3), Vienna 1975, pp. 139-141.

CONCLUSION

In the first few years after the war, imports consisted of almost 90 percent aid supplies from United Nations Relief and Rehabilitation Administration), which between 1945 and mid-1948 were worth USD 500 million.

The development of exports took place in two phases: In the first phase from 1945 to 1950, after the resumption of domestic production, the pre-war volume of exports was gradually reached again in 1948 in terms of value and in 1951 in terms of weight.

Under the Marshall Plan, Austria received USD 958 million until 1955. In terms of imports, too, there was a trend in line with exports. There was above-average expansion until the mid-1950s, but this slowed significantly until the recession year 1967. In 1967/1968 there was another turnaround in export growth, because despite the recession at home and abroad, exports rose sharply, which was favored by increased export subsidies and the tariff dismantling within the EFTA, which was completed in 1966. Discrimination against domestic exports within the EEC area also stagnated after the internal tariff dismantling there was finalized in 1968

The first oil crisis and the severe international recession that followed ended the boom phase in 1974/1975, initiated a trend break in economic growth and thus a slowdown in export development. Since there were worldwide fears of a shortage of crude oil and other raw materials, there was a speculative storage boom, especially in the first half of 1974, which in turn triggered an increase in world trade, from which Austria benefited due to its raw and semi-finished goods structure and was able to improve its trade balance.

REFERENCES

1. Breuss, F. Österreichs Außenwirtschaft 1945-1982, Signum-Verlag, Vienna 1983.
2. WIFO, Austria's economic situation eighteen months after the end of the war, WIFO monthly reports, vol. XIX (7-9), Vienna 1946.
3. WIFO, Structural weaknesses in Austrian exports, WIFO monthly reports, vol. 11/1960, Vienna 1960.
4. Rothschild, K. Roots and Driving Forces of the Development of the Austrian Economic Structure, in: Wilhelm Weber (Ed.) Austria's Economic Structure, yesterday - today - tomorrow, Berlin 1961.
5. Pechan, Hermann, Der Marshall Plan; A path to economic cooperation in Western Europe, in: The economic unions in their position on national economies and the world economy, Münster-Berlin-Bad, Godesberg 1952.
6. Kohlhauser, Grete, Transformation and Forecast of the Austrian Consumption Structure, WIFO Monthly Reports, 1/1976, Vienna 1976.
7. WIFO, The economic situation in the individual areas, WIFO monthly reports 12/1957, Vienna 1957.
8. WIFO, Austria's position in Western European exports, WIFO monthly reports 5/1955, Vienna 1955.
9. Fitz, M., The Effects of the English Import Tax, WIFO Monthly Reports, 38 (4) / 1965, Vienna 1965.
10. Rothschild, K., Austria and European Integration, in: Wilhelm Weber (Ed.) Austria's economic structure, yesterday - today - tomorrow, Berlin 1961.
11. Tichy G., The acceleration of economic growth in the upswing 1967-1971, WIFO monthly reports, 45 (4), Vienna 1972, pp. 148-160.

12. Tichy G., Handler Heinz, Suppanz H., The revaluation of the D-Mark and the consequences for Austria, WIFO monthly reports, vol. 42 (11), Vienna 1969, pp. 450-457.
13. Black, S.W., Floating exchange rates and national economic policy, New Haven, Conn., Publisher: Yale Univ. Press, 1977
14. Johnson, K.H., International Dimension of European Monetary Union: Implications for the Dollar, Publisher: Board of Governors of the Federal Reserve System, Washington, 1994, p. 437. 1 See Breuss: Österreichs Außenwirtschaft 1945-1982.
15. The Economist, April 3, 1982.
16. Stankovsky J., P.Wolfgang, Effects of the rise in oil imports on the Austrian balance of payments and the price level, WIFO monthly reports 50 (1), Vienna 1977.
17. 25 See also Stankovsky J., Die Österreichische Erdölrechnung, WIFO monthly reports 48 (3), Vienna 1975, pp. 139-141.