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BANCA DI ROMA

EXTRACT

The Development of Hungarian Banking, 1880–1931: an International Comparison

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There is a long tradition of applying comparative methods in banking history. Already in the 1960s and 1970s historical works comparing banking systems appeared and have had a significant impact up to the present day;[1] since that time a good number of studies have followed.[2] Comparative studies have helped us to understand what factors might contribute in enabling the banking system to operate successfully during industrialization as well as giving an outline of what role the banking system itself played in the process of economic growth in specific countries.[3]

As opposed to international research, however, up till now the comparative approach has scarcely been present in Hungarian research. This largely results from the fact that banking history was very late – only

[1] A. Gerschenkron, *Economic Backwardness in Historical Perspective*, (Cambridge, Mass. 1962). R.E. Cameron (ed.), *Banking in the Early Stages of Industrialization*, (New York 1967). R.W. Goldsmith, *Financial Structure and Development*, (New Haven 1969). R. E. Cameron (ed.), *Banking and Economic Development*, (New York 1972).

[2] Referring only to a few works: K.E. Born, *Geld und Banken im 19. und 20. Jahrhundert*, (Stuttgart 1977). C.P. Kindleberger, *A Financial History of Western Europe*, (London 1984). Most recently: C.H. Feinstein (ed.), *Banking, Currency, and Finance in Europe Between the Wars*, (Oxford 1995). D. Verdier, "Gerschenkron on his Head: Banking Structures in 19th–Century Europe, North America, and Australasia", European University Institute, Florence. Working Paper SPS No. 96/3., (Badia Fiesolana 1996).

[3] R.H. Tilly, 'Banking Institutions in Historical and Comparative Perspective: Germany, Great Britain and the United States in the Nineteenth Century and Early Twentieth Century', *Journal of Institutional and Theoretical Economics* 145 (1989), pp. 189–209.; P. Hertner, "Das Vorbild deutscher Universalbanken bei der Gründung und Entwicklung italienischer Geschäftsbanken neuen Typs, 1894–1914", in F.-W. Henning (Hg.), *Entwicklung und Aufgaben von Versicherungen und Banken in der Industrialisierung*, (Berlin 1980), pp. 195–281.

from the mid–1980s – in gaining ground within Hungarian historiography. Since that time the growth of the discipline is reflected in several works which have made up for the losses of many decades in certain sub–fields, but these hardly undertook to make comparisons.[4] The works of international banking history that partly or entirely aim at investigating comparative aspects do not discuss the development of the Hungarian banking system either.[5]

In the following we attempt to study the Hungarian banking system in a comparative way. It is not possible at present to make a comprehensive comparison embracing all significant aspects in banking history because of the considerable gaps that still exist in some areas of Hungarian research. Thus, we concentrate on the examination of a couple of selected areas, which are to be discussed as follows. Despite these shortcomings, we hope that the comparative perspective will shed light on important features of the development of Hungarian banking . At the same time, it makes it possible to correct a number of findings with regard to the evolution of the Hungarian banking system. Besides, the comparisons may contribute to an understanding of the history of universal banking systems and the role fulfilled by the financial sector in the industrialization of "latecomer" countries.

The German and Austrian banking developments serve as the major

[4] G. Ránki, "A Magyar Általános Hitelbank a 20–as években", in *idem, Mozgásterek és kényszerpályák,* (Budapest 1983) pp. 286–317. G. Kövér, 'A brit tőkepiac és Magyarország, az Angol–Magyar Bank, 1867–1897', *Századok* (1984), pp. 486–513. idem, 'Az Osztrák–Magyar Monarchia bankrendszerének fejlődése', *Közgazdasági Szemle* (1986), pp. 312–324. Á. Pogány, 'From the Cradle to the Grave? Banking and Industry in Budapest in the 1910s and 1920s', *Journal of European Economic History* 18 (1989), pp. 529–549. On the Hungarian–Austrian comparisons in the age of the dualism and regarding the banking–industry relationships after the First World War see: G. Kövér *op.cit.* (1973). *idem,* "The Austro–Hungarian Banking System", in R. Cameron and V.I. Bovykin (eds.), *International Banking, 1870–1914,* (Oxford 1991), pp. 319–344. R. Nötel, 'Money, Banking and Industry in Interwar Austria and Hungary', *Journal of European Economic History* 13.2. (1984), pp. 137–202. Some comparative findings can also be found in the following work: L. Katus, "Magyarország gazdasági fejlődése, 1890–1914", in *Magyarország története,* 7/1. kötet., (Budapest 1978), pp. 265–401.

[5] Although Austria–Hungary or its equivalents (Donaumonarchie etc.) appears many times as a headword, even in this case the banking system of the western part of the Habsburg Empire is denoted. See for example: H. Pohl (Hrsg), *Europäische Bankengeschichte,* (Frankfurt am Main 1993), pp. 316–332.

target subjects of comparison; in some cases, however, we will refer to the growth of banking in other national economies as well with the purpose of clarifying the characteristics of the Hungarian system. Special attention is to paid to the German and Austrian banking system because – as we shall see later – they were universal banking systems which shared certain characteristics with the Hungarian system. What is more, the research in both countries ascribes – though not without debate – a characteristically positive role to banks in the process of industrialization. This particularly applies to the German banking system in the second half of the nineteenth century, which is frequently portrayed in economic history writing as a textbook example of the growth-promoting banking system, in contrast to, for instance, the British case.[6] In addition, since Austria and Hungary belonged to the same empire and had the same currency till the end of the First World War, it might be illuminating to see how their banking systems evolved under similar political–financial conditions.

The period under examination spans from 1880 to 1931; the temporal boundaries of the research are, of course, approximate since when we talk of processes in economic history it is usually difficult to stick to precise dates. It was in the 1880s that the modern banking system came into being in Hungary, which until the First World War – serving as an inner time limit in our paper – functioned basically in accordance to the same principles, although this structure continued to determine the Hungarian banking system even afterwards, until the 1930s. Nevertheless, during and after the war the operative conditions of the banking system changed considerably, thus this phase had not only similar characteristics but also differed from the former one.

Within the period 1880-1931 the paper focuses on the three decades before the First World War, the most flourishing in the history of the Hungarian banking system, since it is in this period that the works of economic history exploring the subject traditionally ascribe a major role to the Hungarian banking system in economic development, often

[6] R.H. Tilly *op.cit.* (1989). W.P. Kennedy and R. Britton, "Portfolioverhalten und wirtschaftliche Entwicklung im späten 19. Jahrhundert", in R.H. Tilly (Hg.), *Beiträge zur quantitativen vergleichenden Unternehmensgeschichte*, (Stuttgart 1985), pp. 45–89.

considering it the most developed sector of the Hungarian economy, in line with railway transportation.[7] In this first, lengthier part, the paper investigates above all the business policies of the Hungarian banks on the basis of an approach which is widely employed in banking history research; that is, the level and the features of bank specialization. After this several other important structural/institutional characteristics will be introduced (bank–density, comparative financial ratio, degree of concentration, branch networks, mergers–concentration). Finally, we will examine the most important forces affecting the formation of Hungarian banking, paying particular attention to those (capital market–capital supply, the role of the state and the central bank), which according to researchers, played a major role in the formation of universal banking systems. The second part of the paper analyses how the most important international trends in the development of banking related to Hungary in the one and a half decades after the First World War.

1. The development of banking before the First World War

Universal and specialized banking systems.

One of the most fundamental features of banking systems is the degree of bank specialization (the division of labour between the banks). Therefore we can differentiate between universal and specialized banks and banking systems. According to the definition of modern banking–business administration "the universal bank is one that (...) does not know any limitation while doing its business, either in quantitative, or local/regional, or inter–branch, or qualitative respect, or in relation to the groups of its clients."[8] Other definitions, of course, exist as well. In another draft by the same author the universal – or mixed – bank "performs all banking business operations except for banknote and mortgage–bond issuing."[9] The 1930 definition by Georg Solmssen says that the mixed bank

[7] I.T. Berend and G. Ránki, *Európa gazdasága a 19. században, 1780–1914*, (Budapest 1987), p. 389. L. Katus *op.cit.* (1978), p. 369.
[8] H.E. Büschgen, *Bankbetriebslehre*, (Wiesbaden 1989), p. 30.
[9] H.E. Büschgen, *Universalbanken oder spezialisierte Banken als Ordnungsalternativen für das Bankgewerbe der Bundesrepublik Deutschland unter besonderer Berücksichtigung der Sammlung und Verwendung von Kapital*, (Köln 1970), p. 6.

is "a credit institution which unites the credit business and money trade functions with the issue of securities and the Gründungsgeschäft."[10] Similar to the definition given by Solmssen modern economic history writing also stresses the importance of the issue of securities in universal banks and of the *Gründungsgeschäft* – that is, the foundation of joint-stock companies – which supplements short-term business. Industrial investments are especially emphasized, through which mixed banks were able to play an important role in generating economic growth. According to this view, the universal or mixed banking system consists of banking institutions that combine deposit-bank operations, that is, short-term credit with the business of investment-banks, that is, long-term investing.[11]

As opposed to this in the specialized banking systems the banking institutions are specialized in different ways, though in the first place in accordance with types of transaction, and thus long-term (investment) banking activity comes to be separated from short-term credit business.

In the decades preceding the First World War the backbone of the financial system was made up of universal banks in Germany and in several other Central European countries like Austria, Switzerland, Italy and those of Scandinavia.[12] On the contrary, according to the

[10] G. Solmssen, *Entwicklungstendenzen und weltwirtschaftliche Aufgaben der deutschen Großbanken. Vortrag, gehalten in Zürich am 5. Februar 1930 auf Einladung der Deutschen Handelskammer in der Schweiz.* (Berlin o. J.), p. 12.

[11] R.H. Tilly *op.cit.* (1989), p. 190.

[12] R.H. Tilly, "Germany, 1815–1870", in R. Cameron (ed.) *op.cit.* (1967), pp. 151–182.; M. Pohl, *Die Entstehung und Entwicklung des Universalbankensystems*, (Frankfurt am Main 1986). *idem*, "Festigung und Ausdehnung des deutschen Bankwesens zwischen 1870 und 1914", in *Deutsche Bankengeschichte*. Bd. 2. (Frankfurt am Main 1982), pp. 223–351.; P.B. Whale, *Joint Stock Banking in Germany*, (London, 1968. Orig. 1930.). A. Gerschenkron, *An Economic Spurt that Failed, Four Lectures in Austrian History*, (Princeton 1977). R. Rudolph, "Austria, 1800–1914", in R. Cameron (ed.), *op.cit.* (1972), pp. 29–57; *idem*, *Banking and Industrialization in Austria–Hungary. The Role of Banks in the Industrialization of the Czech Crownlands, 1873–1914*, (Cambridge 1976). J.S. Cohen, "Italy, 1861–1914", in R. Cameron (ed.), *op.cit.* (1972), pp. 58–90. S.A. Hansen, 'The Transformation of Bank Structures in the Industrial Period. The Case of Denmark', *Journal of European Economic History* 3 (1982), pp. 575–603. H.C. Johansen, "Banking and Finance in the Danish Economy, 1870–1914", in V. I. Bovykin and R. Cameron (eds.), *op.cit.* (1992), pp. 159–173.; L. G. Sandberg, 'Banking and Economic Growth in Sweden before World War I', *Journal of Economic History* 38.3. (1978), pp. 650–680.

conventional wisdom about the subject which is usually accepted despite debate[13] – British banks, did not engage in long–term transactions which were often regarded even at that time as speculative.[14] To put it more precisely, in England there was not a legally regulated specialization of the banks that rested upon tradition: most of the credit institutions were engaged in short–term credit and deposit business ("commercial banks", "deposit banks"), while the rest specialized in the issue and trading of securities ("investment banks", "brokers"), and international transactions ("merchant banks", "overseas banks").[15] The banking system of France and Belgium was characterized by a transition from the specialized English system to the universal German system. Although the long–term financing of industry began in these very countries through *Société Générale*, *Banque de Belgique* as well as *Crédit Mobilier*, in these two countries – after their failures – banks gave up most of these business activities, and it was only after the First World War that universal banks came into being again (*Crédit Commercial, Banque Nationale*).[16]

In the period under investigation in Hungary several features of universal banking systems can be observed. As will be discussed in detail below, the majority of banks – especially savings banks – did not employ, or only to a lesser extent employed, preliminary quantitative, local, inter–branch, client–group related and other qualitative limitations in their business policy. A most characteristic example are the statutes of the Hungarian General Credit Bank and the Franco–Hungarian Bank, both founded in the 1860s. At the time of their foundation these banks

[13] On the debates on the role of the English banking system it played in the industrialization see: M. Collins, *Banks and Industrial Finance in Britain, 1800–1939,* (London 1991).
[14] On the contraposition see:
A. Weber, *Depositenbanken und Spekulationsbanken,* (Leipzig 1902).
[15] M. Collins, *Money and Banking in the UK. A History, 1826–1986,* (London–New York–Sydney 1988). B.L. Anderson and P. Cottrell, *Money and Banking in England. The Development of the Banking System, 1694–1914,* (London–Vancouver 1974). P. Cottrell, "Great Britain", in H. Pohl (Hg.), *Europäische Bankengeschichte,* (Frankfurt am Main 1993), pp. 237–249.
[16] R. Cameron, "Belgium, 1800–1875", in *idem* (ed.) *op.cit.* (1967), pp. 129–150. H. Van der Wee and M. Goossens, "Belgium", in V.I. Bovykin and R. Cameron (eds.). *op.cit.* (1991), pp. 113–129. R.E. Cameron, *France and the Economic Development of Europe,* (Princeton N. J. 1960). R. Cameron, "France, 1800–1870", in R. Cameron (ed.) *op.cit.* (1967), pp. 100–128. C. Kindleberger *op.cit.* (1984), pp. 95–116.

were authorized to perform the following business activities: to establish industrial and commercial enterprises and to participate in them; to support them by any means, through advances or down payments, bank loans or in any other way; to invest in rail– and waterway construction; to make advances for all kinds of products and produce; to engage in real-estate trading and discounting; to increase deposits (by way of current accounts and treasury notes), as well as all kinds of stock exchange transactions.[17] This broad range of business did not at all mean that the banks performed all of these transactions at the same time or with equal weight. It shows, however, that in principle banks were allowed to perform any kind of banking operation. If the statutes of all banks were not so ambitious, in the decades preceding the First World War the business regulations of most banks included short-term loans, securities trading, and what is more, the foundation of enterprises as possible fields of banking activity.

The characteristics of Hungary's universal banking system. The business policy of banks

As a matter of fact, Hungary's banking system differed from specialized ones. but it also had perculiarities compared to some mixed banking systems which cannot be neglected either. First of all, in some respects when we take into consideration the degree of specialization of banks and their legal and institutional framework, the Hungarian system was even more universal than the German and Austrian one. On the one hand, in the latter countries savings banks were separate from mixed banks. Ever since the eighteenth century savings banks were founded mostly for reasons of charity/social welfare, thus German and Austrian savings banks were municipal institutions, and for the most part they maintained connections with less wealthy customers. This also explains why savings banks as public institutions enjoyed tax advantages. Besides, they were not created as joint–stock ventures and did not take

[17]S. Jirkovsky, 'Az 1873–i válság hatása a magyar hiteléletre', *Magyar Takarékpénztárak és Bankok Évkönyve* (1940), p.174.

responsibility for their obligations with share capital but with the community (town or county district) standing behind them.[18] Nevertheless, the differences between the savings banks and the big joint–stock banks were narrowed in these countries as from the end of the nineteenth century. With state intervention in social welfare policy, savings banks began to lose their former welfare functions and to become the banks of the middle classes; that is to say, with regard to clientele the dividing line between them and the big mixed banks was fading. In Germany this process was reflected in the way savings banks were authorized to deal with passive cheque operations *(passiv Scheckfähigkeit)* and to keep current– and giro–accounts.[19] The separation of functions, however, did not cease entirely to exist at this time for it was only in 1921 that savings banks were entitled to include securities trading in their sphere of business transactions. In Austria by the turn of the century the legal difference between joint–stock banks and savings banks had also narrowed, as the latter lost their fiscal advantages.[20]

As opposed to this, in Hungary the dividing lines between the savings and the joint–stock banks came to be blurred very early, and very strongly in the years after the establishment of the first credit institutions, in the middle of the nineteenth century. The philanthropic feature of the savings banks disappeared and they set out to work in a profit–oriented way, in a joint–stock–company form, that is to say, as deposit banks. This could not be changed significantly by the efforts of the Austrian government, though in 1852 the so–called "Regulativ" was provisionally introduced, which was to regulate Hungarian savings banks, keeping in view the model of the Austrian philanthropic savings banks.[21] Later, however, the legislation did help to complete this integration tendency, since the savings banks of communities were under almost the same regulations as big joint–stock banks. Article 8 of 1909, for example, classified the community savings

[18] E. März and K. Socher, "Währung und Banken in Cisleithanien", in A. Wandruzka and P. Urbanitsch (Hrsg.), *Die Habsburgermonarchie, 1848–1918.*, Bd. I., (Wien 1973), pp. 335–336.

[19] Born *op.cit.* (1977), p. 208.

[20] März–Socher *op.cit.* (1973), p. 363.

[21] S. Jirkovsky, *Takarékpénztáraink és a Regulativum,* (Budapest 1939).

banks in the same taxation categories as the companies obliged to publish their accounts. There were only a few savings banks that retained their original philanthropic role, such as those of Nagyszeben and Brassó, obviously as a consequence of the fact that in the towns inhabited by Saxons the German pattern was in the ascendant.[22] Although their number was not low (Table 2), in Hungary the role of non–profit–oriented industrial and agricultural credit associations was far less significant than in Germany or Austria before the First World War.[23] By the end of the nineteenth century the importance of private bankers in Hungary was being reduced to a minimum but this was also true of Germany and Austria.[24]

In practice, of course, the weight of the institutions' specific business sectors was not the same, as in the case of the lesser provincial savings banks and the big Budapest banks. The differences, however, were not primarily the outcome of either legal limitations, or even restrictions in the statutes, but resulted from their daily business opportunities.

The blurring of the division between the types of credit institutions was also increased by the fact that mortgage business also gained ground amongst the activities of several Hungarian mixed and savings banks. While in the case of savings banks this could be observed in Germany and Austria as well, the biggest mixed banks did not take part in these activities.[25] In Hungary the Hungarian Commercial Bank of Pest – which was one of the two biggest Hungarian banks before the World War – ran a separate mortgage–loan department, and its mortgage–loans amounted to 55.6 per cent of its assets in 1900, and 48.3 per cent in 1913.[26] Amongst the leading banking institutions the United Savings Bank of Budapest achieved a similar result, and mortgage business was also considerable at the Hungarian Discount and Exchange Bank. Moreover, from 1856

[22] G. Vargha, *A magyar hitelügy és hitelintézetek története*, (Budapest 1896), p. 84.
[23] Born *op.cit.* (1977), p. 230. Rudolph, *op.cit.* (1976), p. 71.
[24] H. Wixforth and D. Ziegler, 'The Niche in the Universal Banking System, the Role and Significance of Private Bankers within the German Industry, 1900–1933', *Financial History Review* 1 (1994), p. 102.
[25] D.F. Good, *The Economic Rise of the Habsburg Empire, 1750–1914*, (Berkeley 1984), p. 68. K.E. Born *op.cit.* (1977), p. 198.
[26] L. Hegedüs, *A Pesti Magyar Kereskedelmi Bank keletkezésének és fennállásának története*, II. kötet. 1892–1917, (Budapest 1917), pp. 167–183.

onwards the central bank also had a mortgage–loan department, which was unique among European central banks.[27]

Thus, in Hungary until the First World War, compared to other universal banking systems, there was an institutionally less differentiated financial system, and the specialization of bank–types developed on a small scale. In this respect the Hungarian banking system could be considered completely universal. The picture is less straightforward if we investigate other aspects of business policy and the structure of credit institutions. Within this context, particular attention should be paid to the (industrial) investment banking activities that were accompanied by short-term transactions, since, as we have seen, research regards these functions above all as the most characteristic feature of the universal banking system in the last decades of the nineteenth century. The proportion of investment business in the case of Hungarian universal banks was – obviously – substantially smaller than that of German and Austrian mixed banks.

Promising attempts have been made to compare business policies in the banking development of the nineteenth century by means of employing the ratio of various balance–sheet items.[28] One of the most recent experiments has been carried out by Daniel Verdier, who does not only separate universal and specialized national banking systems from one another, but also measures the degree of universality and specialization. Taking as a starting–point the finding that the riskier investment business demands greater liquidity, he considers universality or specialization as a function of liquidity. He applies two ratios to measure the degree of liquidity: the ratio of equity capital and total liabilities as well as that of equity capital and deposits (with the exception of current account deposits).[29] Verdier's calculations confirm what we have established so far, since according to his results there were two well–defined groups among the national banking systems he examined;

[27] G. Kövér, "Az Osztrák Nemzeti Bank működése és az Osztrák–Magyar Bank alapításának előzményei", in T. Bácskai (szerk.), *A Magyar Nemzeti Bank története*, I. kötet, (Budapest 1993), pp. 192–194.
[28] P. Hertner *op.cit.* (1980). D. Verdier *op.cit.* (1996).
[29] D. Verdier *op.cit.* (1996), p. 6.

that is, the specialized Anglo–Saxon type, where both ratios were small (UK, Canada, USA), and the universal type, where, on the contrary, both indices were high (for example Germany, Italy, Austria). (See Table 1).

We have made these calculations concerning Hungary, though we are aware that employing the above-mentioned method raises several problems.[30]

TABLE 1. Two indicators of the liquidity of assets in different countries

	equity/deposit		equity/liability
	1913 %	1890 %	1913 %
United Kingdom	0.10	0.20	8.5
Canada	0.19	0.49	14.7
USA	0.25	0.48*	15.5
Norway	0.25	0.19	15.5
Australia	0.35		16.3
France	0.43		15.0
Sweden	0.45		24.2
Switzerland	0.56	1.72	16.7
Belgium	0.72	1.36	19.2
Germany	0.73	4.66	19.0
Italy	0.88	1.47	22.0
The Netherlands	1.58		29.3
Austria**	2.00		22.7
Denmark			22.9
Spain	5.00	4.01	
Hungary	0.43	0.51***	13.3

*1896
**Austria and the Czech Crownlands.
***1893

Source: Verdier *op.cit.* (1996), Appendix. Table 1. For Hungary: data of the five largest banks and savings banks; own computation based on the different volumes of *Magyar Compass* (See the method of computation in the text).

[30] The data construed in this way are to be treated critically. On the one hand Verdier himself also points out that his indices indicate liquidity only approximately and there may be different, more precise indicators of liquidity (the proportion of the bank's assets that can quickly be made payable in cash and its short–term liabilities). On the other hand, in our opinion, the representativeness of the data is not appropriate in some places. In the case of most countries Verdier takes the data of only the 3–6 biggest banks for the basis of investigation, while in the case of the rest the analysis is grounded on the data taken from a much greater number of institutions. In addition, because of differences in the methods of drawing up the balance sheets of banks in various countries differences can occur in the content of the individual balance–sheet items, which may reduce the reliability of the comparison.

On the basis of our results the liquidity of Hungarian banks in the chosen period could be taken as low. It especially applies to the ratio of equity capital/liabilities in 1913, the 13.3 percentage value of which fell behind that of all the countries – except for the United Kingdom – which were listed in the table. The ratio of equity capital/deposits was quite moderate around 1890 as well, but the index of 0.43 in 1913 was situated rather in the middle of the table. It is particularly striking that the liquidity of Hungarian banks was on a much smaller scale than that of the German and especially the Austrian banks. If we accept this method of calculation, it shows that the Hungarian banks' degree of universality was low and considerably lagged behind that of German and Austrian banks.

Because of the methodological difficulties of this quantitative comparison qualitative research concerning business policy and structure are important for us as well. These basically confirm that investment activities – industrial investment in particular – were of lesser significance in Hungarian credit banks than in their German and Austrian counterparts, though, as far as dynamics are concerned, to some extent they go against the results of the above calculations.

As is widely known, after Belgian precedents it was the French bank named *Crèdit Mobilier*, established in 1852 in Paris, that first placed the founding of enterprises at the centre of its operations.[51] In Germany and Austria the 1850s saw the birth of joint–stock banks engaged in investment transactions, which were successively transformed into mixed banks performing short-term business as well.[52] Despite debate about the subject, most economic historians agree that in Germany an especially close link was to be formed between the banking sector and industry. The mainstream of economic history research attributes great significance to the investment actions of German universal banks in the economic growth of the country, and mainly in the industrial growth of the last decades of the nineteenth century and at the turn of the century as

[51] R.E. Cameron *op.cit.* (1960), p. 153.

[52] M. Pohl "Allgemeine Entwicklungslinien", in H. Pohl *op.cit.* (1993), p. 227.

well.[33] As we have already mentioned, it is in comparison with the investment activities of British banks that the German universal banking system emerges as one of the major factors of Germany's successful economic performance at the end of the nineteenth century.[34] The majority of economic historians also find the industrial investment activities of Austrian banking important,[35] especially in the period between 1895 and 1914, which has been called "a second *Gründerzeit*". Moreover, Eduard März states that "the big banks never played such a determining role in the economic life of any country as in the Austrian–Hungarian Monarchy."[36]

In Hungary it was in the 1860s that the first banks announced plans to join in investment and some of them did indeed initiate large–scale business enterprises of this kind.[37] The early initiatives only affected a few of the larger banks and lasted only for a short time. After the 1873 crisis the banks became rather cautious as regards investment matters. This was particularly true in the case of the relationship between banks and industry, which henceforth was merely characterized by traditional credit relations, of not very great significance. For example, one of the two biggest banks of the period – the Hungarian Commercial Bank of Pest – rendered 0.44 per cent of their current account credits payable to industrial joint–stock companies in 1892, which totalled not more than 0.08 per cent (!) of its assets.[38]

[33] See, for example, the view that does not assign any significance to the banks: H. Neuburger and H.H. Stokes, 'German Banks and German Growth: An Empirical View', *Journal of Economic History* 34 (1974), pp. 711–731. On the view that does assign a positive role to the banks see: R. Fremdling and R.H. Tilly, 'German Banks, German Growth, and Econometric History', *Journal of Economic History* 36 (1976), pp. 416–424. R.H. Tilly, 'German Banking, 1850–1914, Development Assistance for the Strong', *Journal of European Economic History* 15.1. (1986), pp.113–152. E. Eistert, *Die Beeinflussung des Wirtschaftswachstums in Deutschland von 1883 bis 1913 durch das Bankensystems*, (Berlin 1970). W.P. Kennedy and R. Britton *op. cit.* (1985), pp. 45–89.
[34] P. Cottrell, *Industrial Finance, 1839–1914*, (London 1980), pp. 187–189.
[35] D.F. Good *op.cit.* (1984). E. März, *Österreichische Industrie- und Bankpolitik in der Zeit Franz Josephs I.*, (Wien 1968). E. März–K. Socher *op.cit.* (1973), pp. 323–368.
A more cautious view is represented by: R. Rudolph *op.cit.* (1976). A. Mosser, *Die Industrieaktiengesellschaften in Österreich, 1880–1913*, (Wien 1980).
[36] E. März, *op.cit.* (1968), p. 372.
[37] G. Kövér *op.cit.*(1984).
[38] B. Tomka, 'Bankuralom, bankérdekeltség, bankellenőrzés, A magyarországi pénzintézetek ipari kapcsolatai a századfordulón, 1895–1913', *Történelmi Szemle* 37.2. (1995), pp. 171–207. B. Tomka, 'Das Verhältnis zwischen Banken und Industrie in Ungarn, 1895–1913', Ungarn–Jahrbuch 23 (1997), pp. 173–203.

The increase in the industrial *Gründungsgeschäfts* of the banks, mainly of the big Budapest banks, is noticeable from the middle of the 1890s. The fundamental factor in this trend was the rapid development of industrial joint–stock companies, the number of which grew from 131 to nearly a thousand between 1880 and 1913, but the rate of increase in their share capital was even higher than this. It grew from 118.5 million Koronas (the Crown, Hungarian currency) up to 1,023.7 million.[39] In Hungary – as in Austria – the fact that the volume and profitability of the state's financial operations decreased[40] played a big role in the process of the large banks' opening towards industry. In addition, the competition between credit institutions intensified more and more. However they did not manage to reduce deposit interest rates, thus the margin narrowed in traditional deposit business.

Spectacular signs of the relationships built up with industrial companies were provided by interlocking directorates in Hungary as well.[41] Their scope was similar to that of the large Austrian banks. In 1913 at the Hungarian Commercial Bank of Pest the members of the executive and supervisory boards, managers and deputy managers possessed 115 seats of the executive and supervisory boards of 74 domestic industrial joint–stock companies. The members of the executive and the supervisory board of the biggest Austrian bank, *Creditanstalt* in 1917 had 194 seats at various joint–stock companies.[42] The biggest German bank, that is *Deutsche Bank* owned 78 supervisory board memberships at 73 industrial firms in 1913.[43] The extensive presence of banks on executive and supervisory boards, however, did not imply in itself any bank dominance in Hungary, in the first place because,

[39] B. Katona, *Magyarország közgazdasága, 1913.* (Budapest 1914), pp. 162–163. L. Láng (szerk.), *Magyarország gazdasági statisztikája.* II. k., (Budapest 1887), p. 276.
[40] E. März *op.cit.* (1968), p. 301.
[41] *Compass Leonhardt, 1913–1914,* Bd. I–II., (Wien 1915). B. Tomka, 'Interlocking Directorates between Banks and Industrial Companies in Hungary at the Beginning of the Twentieth Century', *Business History,* 43.1. (2001), pp. 25-42.
[42] J. Krizek, *Die wirtschaftlichen Grundzüge des österreichisch–ungarischen Imperialismus in der Vorkriegszeit (1900–1914),* (Praha 1963), p. 101, Footnote No. 84.
[43] K.E. Born *op.cit.* (1977), p. 325.; C. Fohlin, 'Universal Banking Networks in Pre–War Germany, New Evidence from Company Financial Data', *Research in Economics* 51 (1997), pp. 201–225.

surprising as this may seem, in most cases it was not completed with credit and capital flows.[44] The vast majority of industrial companies maintained only occasional financial contacts with the banks. The biggest Hungarian industrial companies (the Rimamurány–Salgótarján Iron Works, the Manfred Weiss Works, the Salgótarján Coal Mines etc.) were all in all independent of banks financially and in their business strategies in our period; it was only occasionally that they applied for their services.[45] It is, of course, unquestionable that there were companies where the banks laid out a considerable capital in proportion to the their size. This was however a relatively small, well–defined set of companies. The total capital invested in industry by one of the two biggest Hungarian banks, that is the Hungarian Commercial Bank of Pest – both short–term credit and long–term investments – added up to only 3–4 per cent of its assets in the mid–1900s, but as a result of more intensive growth in the second part of the decade it ran to nearly 10 per cent before the First World War.[46] That is to say, the banks in Hungary, apart from a short period between 1867 and 1873, not only started industrial investment relatively late, but such activities, even at the end of the period just preceding the World War, remained on a relatively low level as opposed to deposit business. A marked specialization in certain industrial sectors, which was peculiarly noticeable in the case of the giant German and Austrian banks, cannot be observed in the relationships with industry in Hungary.[47] The exception to this was the Hungarian General Credit Bank, which obtained a strong position in the sugar industry.[48]

These findings suggest that banks did not fulfil such a relevant function in Hungarian industrialization, which was attributed to them

[44] B. Tomka *op.cit.* (1995), pp. 171–207. B. Tomka *op.cit.* (1997: 'Das Verhältnis...'), pp. 198–199. For interlocks see: B. Tomka, 'Személyi összefonódás bankok és iparvállalatok között a századforduló Magyarországán', *Replika* 25 (1997), pp. 37–46. B. Tomka, *op. cit.*, (2001).
[45] See: OL (National Archive, Budapest) Z 233. Salgótarjáni Kőszénbánya Rt. Könyvelőség. 41. kötet.
[46] B. Tomka *op.cit.*(1997: 'Das Verhältnis...'), p.196.
[47] E. März *op.cit.* (1968), p. 333.; März and Socher *op.cit.* (1973), p. 358.
[48] Hazai Gyáripar. 1910. dec. 31.; Á. Pogány, "Bankers and Families. The Case of the Hungarian Sugar Industry", in P.L. Cottrell and H. Lindgren and A. Teichova (eds.), *European Industry and Banking Between the Wars*, (Leicester 1992), p. 81.

by Alexander Gerschenkron and others in other Central European countries like Germany and Austria.[49] The investment activity of Hungarian banks did not match that of their Austrian and German counterparts, if we take into account the fact that Hungarian banks were interested in financing various other sectors, in the first place transport (railway) companies at least to a similar extent as they were financing their industrial partners, even in the period immediately preceding the World War 2.[50]

2. Quantitative indicators of the development of the Hungarian banking system

Besides the features of business policy, but not independently of them, there were other important characteristics of the Hungarian banking system. To get to know these more closely, we will have a glance at some quantitative indicators of the Hungarian banking system, particularly because this aspect has been attracting great attention in international comparisons, especially through the indicators of bank density and the so-called comparative financial ratio.[51] These two indicators are of special interest to us, because both are usually considered remarkably high, as far as Hungarian banks are concerned. On the one hand, contemporaries had already written about the "hypertrophy" or "overdevelopment" of the Hungarian banking system, because of the great number of financial institutions. On the other hand, modern Hungarian research has found the Hungarian financial ratio to be particularly high.[52] In our opinion these statements cannot be substantiated in all respects.

It was Rondo E. Cameron and his colleagues who elaborated a method to measure the density of banks.[53] They planned their indices

[49] A. Gerschenkron *op.cit.*(1962).
[50] B. Tomka, *Érdekeltség és érdektelenség. A bank–ipar viszony a századforduló Magyarországán, 1892–1913* (Debrecen 1999).
[51] R. Cameron, "Conclusion", in *idem* (ed.) *op.cit.* (1967), pp. 290–321.
[52] L. Katus, "Magyarország gazdasági fejlődése, 1890–1914", in *Magyarország története.* 7/2. kötet, (Budapest 1978), p. 369.
[53] In the projection of 10,000 inhabitants according to Cameron's classification the bank density is "very low" under 0.1, "low" above 0.1 ranging up to 0.5, above 0.5 up to 1.0 "moderate" and above 1.0 "high". See: R. Cameron, "Conclusion", *op.cit.* (1967), p. 297.

so as to be able to compare the bank systems in countries in approximately the same phase of industrialization. It is not an easy task to define identical phases, but taking this into consideration we obtain the following rates: the bank density in England was 0.48 in 1800, 0.77 at the end of the 1830s; it was 0.58 in 1800 in Scotland, 1.4 (!) already in 1845 – and it grew to 3.3 by the end of the nineteenth century; in Sweden it was 0.45 in 1880, 0.4 in 1890, 0.53 in 1900; while in Prussia it was 0.27 in 1849 and 0.34 in 1861.[54] The French example draws attention to the limitations of this calculation: the bank density of France fell into the "very low" category by Cameron's standards even in 1840 (0.1) and in 1870 it hardly exceeded it (0.12),[55] although the French financial system – as other sources prove – can hardly be regarded as underdeveloped at this time.[56]

At the end of the nineteenth century the Hungarian financial system went through a spectacular change which was evident in the sharp increase in the number of financial institutions . Thus in 1913 nearly 2,000 joint–stock savings banks, banks, and mortgage banks were working in the country. These were accompanied by more than 3,000 credit associations (See Table 2). The international comparison of bank density in the case of Hungary, however, is rendered more difficult by the fact that, as we have seen, savings banks occupied a special position; legally and structurally they worked in the same, or a very similar way, to joint–stock commercial banks. From this point of view, their exclusion from bank density calculations is unreasonable. At the same time, their inclusion is problematic too, as they partly played the role of "real", philanthropic savings banks, which do not appear in the calculations of other national ratios.

Consequently, it seems reasonable to calculate in both ways: with the inclusion and the exclusion of savings banks.[57] If we take the banks,

[54] R. Cameron, "Conclusion", *op.cit.* (1967), pp. 297–298.
[55] R. Cameron, "Conclusion", *op.cit.* (1967), p. 298.
[56] R. Cameron *op.cit.* (1967), pp. 100–128. R. Cameron *op.cit.* (1960).
[57] We should mention that is not clear from Cameron's comparison what kind of banking institutional types he took into consideration in his calculations in this case. In another case, however, Sandberg refers to the fact that through "a more inclusive counting of Swedish bank offices", more conspicuous results could have been earned. See: L.G. Sandberg *op.cit.*(1978), p. 671.

and saving banks as well as the mortgage banks into account (density "A"), as far as bank density is concerned – using the categorization considered rather approximate by Rondo E. Cameron himself – Hungary left the "very low" grade in the 1860s, passed over to "moderate" from "low" in the middle of the 1890s, while at the end of the period, in 1910 it approached "high" (over 1.0) density. Calculating only with banks (density "B"), however, this index is considerably smaller: only 0.36, that is "low" in 1909. (See Table 3).

We face similar methodological problems when we apply the other quoted index for Hungary, the so-called comparative financial ratio – i.e. the proportion that bank assets bear in relation to national income or gross national product.

In one of the few comparisons related to Hungarian bank development, László Katus claims that "in no other country did the banks play such a significant role in financing the capitalist economy, as in the Austrian–Hungarian Monarchy." Katus bases this statement on the fact that in Hungary "the total of the capital collected and redistributed by credit institutions amounted to 170 per cent of national income in 1913. We cannot find such a high sum in any contemporary country, apart from Austria."[58] Indeed, Cameron's calculations did not result in such a high comparative financial ratio: e.g. Belgium reached 13–14 per cent in 1850, 40–42% even in 1875; it was 15.6% in 1870 in France; 89.6% in 1845 in

TABLE 2. The number of financial institutions in Hungary, 1894–1913

Year	Banks, savings banks, mortgage banks		Credit associations		Total	
	Hungary	Budapest	Hungary	Budapest	Hungary	Budapest
1894	809	26	789	28	1598	54
1899	982	34	1381	58	2363	92
1904	1150	42	2462	118	3612	160
1909	1515	84	2910	127	4425	211
1913	1845	121	3191	91	5033	212

Source: Different volumes of *Magyar Statisztikai Évkönyv.*

[58] L. Katus *op.cit.* (1978), p. 369.

Scotland; 27.9% in 1800 and 29.6% in 1825 in the case of England and Wales.[59]

In his comparisons, however, Katus seems to forget about the fact that in the above-mentioned international figures, only the assets of joint–stock banks, and occasionally those of the central bank were taken into consideration, while the assets of savings banks, credit associations etc. were not. The possible degree of distortion that results is best illustrated by the example of Russia: calculating solely with the assets of deposit banks, the financial ratio of Russia was 61 in 1914, while including all its financial institutions, it was more than double 7 the figure (129).[60] Only by including the assets of banks and savings banks can such a high financial ratio as that quoted by Katus be reached, which according to our own calculations was 148.1 in 1901 and 179.7 in 1913. (financial ratio "A" – See Table 4).

According to the "narrow" method, i.e. calculating with the assets of banks exclusively, we come to a totally different result in the case of Hungary as well: the financial ratio "B" rising in this way, was 55 in 1901,

TABLE 3. Indices of bank density in Hungary, 1869–1910

Year	Population (1)	Number of banks, savings banks, mortgage banks (2)	Density "A" =(2)/(1) x10,000	Number of banks* (3)	Density "B" = (3)/(1) x10,000
1869	13,663,691	185	0.14	50	0,04
1880	13,883,964	432	0.31	107	0,08
1890	15,261,864	634	0.42	170	0,11
1900	16,838,255	1011	0.60	331	0,20
1910	18,264,533	1642	0.90	663**	0,36

* Banks without savings banks and mortgage banks.
** Data from 1909. In 1910 and the following years the data of banks and savings banks are not separated in the statistics of the Hungarian Statistical Office.

Source: *Magyar Statisztikai Közlemények. 35. kötet. op.cit.*; Different volumes of *Magyar Statisztikai Évkönyv.*

[59] R. Cameron, "Conclusion", *op.cit.* (1967), p. 301.
[60] R. Cameron, "Conclusion". *op.cit.* (1967), p. 301.

so it was little more than one third of the figures obtained by the other method. This ratio was lower than that of Austria (68)[61] and, as can be seen when comparing the above data, it was not high internationally either.[62] We do not have separate data related to bank assets for 1913, therefore we cannot carry out the calculations directly for that year. We have to rely on estimation: supposing that bank assets expanded after 1901 at the same pace as those of the banks and savings banks combined, the financial ratio "B" would be 66.7 in 1913. According to the years when data on the assets of banks and savings banks are available separately, it is obvious that before the World War bank assets increased more dynamically than the average. Thus, the 1913 financial ratio might be higher than this figure, but we can be fairly sure that, even in this case, it did not reach 100.

Nevertheless, the exclusion of savings banks, as we have stated earlier, raises problems in connection with the international comparison of Hungarian data, as does the former method, i.e. including the assets of the savings banks. Therefore it seems that Raymond W. Goldsmith's indices are better for our purposes, which,

TABLE 4. Financial ratios of Hungary*, 1901–1913

	1901	1913
National income (1) (1000K)	3,210,627	6,741,716
Assets of banks and savings banks (2) (1000 K)	4,755,101	12,115,021
Financial ratio "A" = (2)/(1)x100	148.1	179.7
Assets of banks (3) (1000 K)	1,767,394	
Financial ratio "B" = (3)/(1)x100	55	66.7**
GNP** (1000 K)		8,639,361
Total assets of financial institutions (4)*** (1000 K)		13,932,435
Financial ratio "C" = (4)/GNPx100		161

*With Croatia and Slavonia.
** See the method of estimates in the text.
*** Without the common Austro-Hungarian central bank.

Source: F. Fellner, *A nemzeti jövedelem becslése*, (Budapest 1903), pp. 28–29. idem, *Ausztria és Magyarország nemzeti jövedelme*, (Budapest 1916), p. 134. Different volumes of *Magyar Statisztikai Évkönyv*.

[61] R. Rudolph *op.cit.* (1976), p. 190.
[62] For other data: R. Cameron, "Conclusion", *op.cit.* (1967), p. 301.

without aiming at comparing even the identical phases of modernization–industrialization, measure the ratio of total assets of the financial institutions to the GNP.[63]

Including the assets of all financial institutions in the calculations significantly modifies the indices in the case of every country. Applying this method, the ratios that we obtain (financial ratio "C") are very often twice, or three times bigger than the ones we get calculating only the assets of deposit banks. For example, using this method, in 1913 the ratio for Denmark was 184 per cent (it was only 58% with the other method), Germany's ratio was 158% (45%), Switzerland 287% (180%), Norway 166% (79%) and Austria reached 153%.[64]

Because of the lack of GNP data in Koronas we ourselves prepared an estimate for Hungarian GNP in 1913, to be able to carry out the calculation related to Hungary.[65] According to this, with the Goldsmith method – the financial ratio of Hungary (financial ratio "C") was 161 in 1913 (Table 4), which was slightly higher than the data for Austria and Germany.[66]

[63] R. Goldsmith, "Financial Structure and Economic Growth in Advanced Countries", in M. Abramovitz (ed.), *Capital Formation and Economic Growth*, (Princeton 1955), p. 151. As quoted by R. Cameron, "Conclusion", *op.cit.* (1967), p. 305.
[64] R. Goldsmith, "Financial Structure and Development", *op.cit.* (1955), Appendix D.
[65] In our opinion it is out of the question to identify the 1913 national income results of Frigyes Fellner [6,741,716,778 K – see F. Fellner, *Ausztria és Magyarország nemzeti jövedelme*, (Budapest 1916), p. 146.] with GNP, as John Komlos does for example in J. Komlos, *Az Osztrák–Magyar Monarchia, mint közös piac*, (Budapest 1990), p. 216, since Fellner took no notice of the output of the service sectors of the economy (though it is just this factor that shows the difference between the two indices). Estimating GNP in 1913, we can take it as a starting point that Fellner's national-income calculation relating to the second half of the 1920s (taking the average of the years 1925/26 and 1927/28), using a method similar to the 1913 one (i.e. totalling 4,384 billion P) is 1,234 billion P less, that is, 28.1 per cent lower, than the GNP calculation made by Matthias Matolcsy and Stephen Varga relating basically to the same period, the years 1926/27 (totalling 5,618 million P). See: M. Matolcsy – Stephen Varga, *The national income of Hungary, 1924/25–1936/3*, (London 1938), p. 68. Consequently, at this time the contribution of services to GNP can be taken as about this amount. If it is assumed that the 1913 ratio was about the same, then, also starting out from Fellner's 1913 national income data, we will get a GNP value of 8,639,361,000 K. [J. Komlos employs a similar method to calculate the Hungarian GNP of 1840: J. Komlos *op. cit.* (1990), p. 227.] This rough estimate probably gets closer to the real GNP, as we would have been working with the bare national income figures, and so it is more suitable to compare with international GNP data.
[66] D.F. Good *op.cit.* (1984), p. 212.

These comparative quantitative indices can only be applied with the necessary reservations in the case of Hungary, because of the different contents of financial categories. Keeping these limitations in view, overall we can claim that the density of Hungarian credit institutions cannot be regarded as high, if we consider the banks exclusively. With the inclusion of savings banks, however, it was relatively high at the beginning of the twentieth century, especially in comparison with countries with universal banking. The Hungarian financial ratio before the First World War was high compared with other European national economies of the period but, contrary to the opinions quoted here, it was scarcely the highest.[67]

3. Some other characteristics of Hungarian banking

With the knowledge of the great number of credit institutions in Hungary, the lack of concentration, or at least the delay in the concentration process, was a remarkable feature of the Hungarian banking system. This fact is particularly interesting, because in a number of European countries the process of amalgamation was proceeding rapidly. In the decades before the First World War, this process was most rapid in English and German banking. In England in 1844 more than 2,000 minor joint–stock banks were functioning, in 1913 however, this figure was only 43.[68] Lloyd's Bank alone merged with 50 banks between 1865 and 1914, and as another typical episode of the process, in 1896, from the merger of 20 private banks a new bank, Barclays Bank came into being. In Germany, between 1895 and 1924, a marked amalgamation process can be observed especially among joint–stock banks.[69] Up to 1911 the Dresdner Bank had merged with 25, the Bank für Handel und Industrie had merged with 19 banks.[70] In 1913 half of the financial

[67] Good compares the comparative financial ratio of Austria with the data from other countries, and reports ratios in the case of Switzerland, Denmark and Germany. See: D.F. Good *op.cit.* (1984), p. 212.
[68] M. Pohl *op.cit.* (1993), p. 224.
[69] M. Pohl, *Konzentration im deutschen Bankwesen (1848–1980)*, (Frankfurt am Main 1982), pp. 161–357. H. Böhme, "Bankenkonzentration und Industrialisierung", in H.–U. Wehler (ed.), *Sozialgeschichte heute*, (Göttingen 1974), pp. 432–451.
[70] K.E. Born *op.cit.* (1977), p. 123.

institutional assets was owned by the 5 biggest Berlin banks.[71] In Austria in 1913 the 12 leading Viennese banks owned 64.7 per cent of total bank assets.[72]

In Hungary the big banks owned a significantly smaller amount of total bank assets than those in Germany or Austria. In 1913 the 5 biggest Hungarian banks held 25.7 per cent of total assets.[73] Although this meant an increase compared to the beginning of the 1890s (1890: 18 per cent), contemporaries who examined the question already discovered the signs of deconcentration as well of concentration.[74] The 15 biggest banks held an average 38.6 per cent of total equity capital in the years between 1900 and 1904, while in the period 1905-1909 the average was 37.2 per cent. Figures for the two boundary years (38.7 per cent, and 35.2 per cent) mark an even faster deconcentration.[75]

While in Germany and in other countries with developed bank systems mergers were important factors in concentration, in Hungary, as in Austria, they were practically unknown. The biggest financial institutions (The Hungarian Commercial Bank of Pest, The Hungarian General Credit Bank, The First National Savings Bank of Pest) did not merge with any banks in the pre–World War decades. It can also be considered typical that although a bank cartel came into being similar to that in Germany and Austria, unlike these countries, it did not take permanent root, which also decreased concentration.[76]

All over Europe constructing big branch networks, which often covered the whole country, was an important means of becoming a big

[71] R.H. Tilly *op.cit.*(1986), p. 113–114.

[72] E. März, "The Austrian Credit Mobilier in a Time of Transition", in J. Komlos (ed.), *Economic Development in the Habsburg Monarchy in the Nineteenth Century*, (New York 1983), p. 121.

[73] S.G. Nagy (szerk.), *Magyar Compass*. I. rész, (Budapest 1914/15).

[74] On amalgamation see: G. Zsoldos, *A bankkoncentráció*, (Budapest 1913), pp. 47–60. At the same time Zsoldos himself also points out the phenomenon of the "decentralization of banking": G. Zsoldos *op.cit.* (1913), pp. 61–66. On the moderation of amalgamation see: L. Hegedüs, 'A tőkekoncentráció problémái Magyarországon', *Budapesti Szemle* 1917, pp. 321–339.

[75] *Magyar Statisztikai Közlemények. 35. kötet. A magyar szent korona országainak hitelintézetei az 1894–1909. években*, (Budapest 1913), p. 51.

[76] B. Tomka, *op. cit.* (1999).

bank, and an accelerator of concentration. Until the First World War the French and the English banks had built the largest branch systems: *Société General* had 668, *Crédit Lyonnais* had 415 branches in 1913. In the same period, in England nearly all the big joint–stock banks had several hundreds of branches. For example, the Midland Bank had 689 in 1913.[77] The construction of branch networks started in Germany as well, but with more modest results than in France and England: in 1911 the six biggest banks had 98 branches altogether.[78] In Austria the ten biggest Viennese banks had opened 127 branches by 1913.[79]

The branch network of banks in Hungary remained rather small, its size can best be compared to those of their German and Austrian counterparts. Among the large financial institutions the First National Savings Bank of Pest and the Hungarian Commercial Bank of Pest were the first to begin creating their branch network. They did it relatively late and on a small scale, since although the First National Savings Bank of Pest opened a few branches in 1868, these were only in the home city, Pest. The Hungarian Commercial Bank of Pest also opened its first Budapest branch in 1886, and its first branch in the country in 1902. In 1913 this bank had a total of 15 branches in the capital city and 11 in the country, and it was a unique network among big Hungarian banks.[80] This is why it was called – with a great amount of exaggeration – the "Hungarian Crédit Lyonnais" by contemporaries. The Discount Bank opened a branch in Budapest in 1890, the Credit Bank opened branches only in 1905 – nine at once though – and all in the country. The Hungarian Bank also started building its branch network as late as the mid-1900s.[81]

Concentration, geographically speaking, undoubtedly succeeded. The dominant role of Budapest was a characteristic feature of the Hungarian banking system. In 1913 each of the fifteen biggest financial institutions – whose equity capital exceeded ten million Koronas – were working in the capital city. The outstanding role of Budapest is

[77] K.E. Born *op.cit.* (1977), p. 123.
[78] K.E. Born *op.cit.* (1977), p. 123.
[79] H. Matis and F. Weber, "Kaisertum Österreich – Donaumonarchie", in H. Pohl (Hrsg.) *op.cit.* (1993), p. 329.
[80] L. Hegedüs *op.cit.* (1913), pp. 185–186.
[81] *Pénzintézeti Szemle,* 1905. május 1. p. 154.

evident even if its share was decreasing in relation to the total equity capital of Hungarian credit institutions: in 1894 it was 54.3 per cent, in 1909 it was 49.6 per cent. A similar decrease affected savings deposits and mortgage–loans, although the share of Budapest banks in the latter was still over 50 per cent. At the same time the Budapest banks' holdings of bills of exchange and current accounts grew as a percentage of the total.[82]

In this period other processes, which extended the influence of the largest banks, were in train. Besides the above-mentioned limited expansion of industrial investment, the increase in the number of so–called bank affiliations – i.e. 'interests' – was the most important one. As a result of this process, after the turn of the century bank groups were formed around the Credit Bank, Commercial Bank, Discount Bank and Hungarian Bank, consisting mainly of institutions in the country. In this way the smaller institutions tried to ensure their own liquidity and need for capital, accepting a form of subordination. The savings banks in the country, being in a rather unstable situation as a result of the large–scale mortgage–loan business, badly needed a source of solid capital. So the system of 'interest networks' was similar to that of Germany where the big banks acted as a concentration point, and it was different from the French system, where two major groups came into being on a regional basis: one in the country and one in Paris.[83]

The main period when the Hungarian Commercial Bank of Pest and other large banks were affiliating, did not coincide with periods of crisis, as was typical, for example, in Germany. This could also be the reason why the big banks rarely merged with other banks. The Commercial Bank for example was affiliated only with the Máramaros Savings Bank and the General Savings Bank of Kassa (Kosice), through reorganizing them.[84]

[82] *Magyar Statisztikai Közlemények. 35. kötet. op.cit.*, pp. 258–259.
[83] K.E. Born *op.cit.* (1977), p. 164.
[84] The extraordinary increase in affiliations in the case of the Credit Bank was not caused by crises either, but rather resulted from the business strategy pursued by the new director, Adolf Ullmann. See: *A Pénzvilág*, 1914. május 23. p. 655.

In the foregoing we have sought to highlight the main peculiarities of the Hungarian banking system with the help of international comparisons in the period 1880—1913. The low degree of specialization, together with the relatively moderate level of investment business even in the case of the biggest banks, the large presence of peculiar universal banks, the great number of financial institutions, and their relative stability, as well as the lack of amalgamation, can all be listed among these most important characteristics. In the following we will discuss what factors might have led to the formation of these particular features. Primarily, we will explore two important factors by which the characteristics of banking systems are interpreted in international economic history; that is, capital supply and the role of the state and the central bank. Since investigations into this subject regarding the Hungarian banking sytem has not at all been carried out so far, our remarks will often be sketchy and hypothetical.

4. Factors affecting the formation of the banking system

The explanation for the characteristics of the universal and specialized banking systems that has been most prevalent in economic history research is based on the change in the scale of capital supply. Perhaps the most typical and widely-known advocate of this thesis is A. Gerschenkron who stated that British industrialization was marked by a self–financing of industry while that of the latecomers in the industrialization process, that is, the more backward countries, were not capable of self–financing, because by that time the capital requirements of industrial investments had already increased, and could only be covered by accumulating and concentrating capital. Gerschenkron finds that this – depending on the scale of backwardness – was financed by either investment banks/universal banks or by state intervention, with the state carrying on the financing of industrialization itself by means of bringing in foreign capital and utilising tax revenues.[85]

[85] A. Gerschenkron *op.cit.* (1962).

In the case of several countries, however, doubts were raised concerning the existence and the degree of capital shortage. In the past most researchers referring to the early stages of German industrialization thought that capital shortage was beyond doubt, and the only thing that could be disputed was whether the shortage was due to the low level of capital accumulation or to the inadequate allocation of mobilised capital.[86] Presently a large number of economic historians trace the small-scale capital mobilization of the early phase of the industrialization back to the modest capital demand of industry, whereas they also acknowledge that in certain periods – such as at the end of the boom of the 1850s and in the 1870s – the relative shortage of capital came to be an impediment to economic growth.[87] Thus the shortage of capital as a decisive factor in the development of the universal banking system does not appear to hold as an explanation either in the case Austria, more exactly the Cisleithanian territories of the Dual Monarchy, as Gerschenkron himself admitted in one of his later works.[88]

In Hungarian historiography of recent decades the shortage of capital and capital import in its wake has been seen as the key issue of Hungarian economic transformation under the Dual Monarchy. Thus, it gained wide currency for explaining the formation of the banking system.[89] However, as we have shown above, the scale of the investment business of Hungarian banks was moderate, which shows clearly that the Hungarian banking system did not respond to the shortage of capital either, according

[86] J. Kocka, *Unternehmer in der deutschen Industrialisierung,* (Göttingen 1975), p. 65. P.B. Whale *op.cit.* (1968), p. 10ff. K. Borchardt, "Deutschland, 1700–1914", in C. M. Cipolla and K. Borchardt (Hrsg.), *Die Industrielle Revolution,* (Stuttgart–New York 1976), pp. 62ff.
[87] R.H. Tilly, "Die Industrialisierung des Ruhrgebiets und das Problem der Kapitalmobilisierung", in *idem, Kapital, Staat und sozialer Protest in der deutschen Industrialisierung,* (Göttingen 1980), pp. 65–76. *idem,* "Germany, 1815–1870", in R. Cameron (ed.) *op.cit.* (1967), pp. 151–182. K.E. Born *op.cit.* (1977), p. 92. R.H. Tilly, *Financial Institutions and the Industrialization of the Rhineland,* (Madison 1966).
[88] A. Gerschenkron *op.cit.* (1977).
[89] I.T. Berend and G. Ránki, *Magyarország gyáripara az imperializmus első világháború előtti időszakában, 1900–1914,* (Budapest 1955). A hypothesis applicable to the whole East–Central European region: I.T. Berend and G. Ránki, *Közép–Kelet–Európa gazdasági fejlődése a 19–20. században,* (Budapest, 1969), p. 109. On the historiographic survey of the problem of capital import: G. Kövér, A dualizmus–kori tőkeimportszámítások historiográfiai és módszertani kérdései. *Aetas* 5.4. (1992), pp. 5–18.

to the Gerschenkron–pattern, even if the shortage existed in fact. Hence the significance of capital shortage in the development of the Hungarian banking system becomes downgraded from the outset, and the shortage of capital brought about by industrialization gives us an incomplete explanation for the peculiarities of the Hungarian financial system.

In our opinion, on the other hand, the existence of a large–scale shortage of capital is not proven for Hungary under the Dual Monarchy. We ought to point out that, as far as demand is concerned, the role of the capital–intensive industry in the growth process was probably less significant than has been formerly assumed.[90] From this point of view Hungary had a lot in common with Denmark: in both countries rapid economic progress was made at the end of the nineteenth and at the beginning of the twentieth century without, however, being really capital–intensive. Furthermore, as we have seen, a considerable degree of self–financing can be assumed in the case of companies in capital–intensive. On the other hand, with regard to capital supply we can see how advantageous the single capital market of the Dual Monarchy could be for Hungary, with the help of which the transfer of Austrian capital took place, improving the scale of capital supply significantly.[91]

If capital shortage was not the key issue in the development of the Hungarian banking system, it is quite feasible that the relatively good level of capital supply was one of the reasons for the low level of universality among large Hungarian banks. This assumption, however, is contradicted by the dynamics of banking development. Prior to the First World War the universality of the banking system did not decrease, but intensified, although capital shortage did not grow markedly as can be seen from the reduction in the relative significance of capital imports.[92]

The peculiarities of the banking system can be explained by other factors outside the sphere of the economy, some of which are connected to the role of the state. Among these factors, recent research ascribes

[90] J. Komlos corrects the data utilised by I.T. Berend, G. Ránki and others: J. Komlos *op.cit.* (1990), pp.213–214.
[91] I.T. Berend and G. Ránki, "Nemzeti jövedelm és tőkefelhalmozás Magyarországon", in I.T. Berend and G. Ránki, *Gazdaság és társadalom,* (Budapest 1974), pp. 36–58.
[92] I.T. Berend and G. Ránki *op.cit.* (1974), pp. 36–58.

great importance to the influence of the state on the capital market and the policy of the central bank.[93]

According to one interpretation, in corporatist states (like Austria–Hungary, Germany, Italy) state support of the non–profit and the local credit sectors, enabled them to survive in an artificial way. This is the reason why the capital market came to be fragmented, which was an important factor in the development of universal banks. Primarily, state intervention reflected the prevalance of agrarian and local–regional interests. Support was sustained by subsidies, exemptions from various taxes, government–guarantees for bonds, as well as territorial protection against market competition, such as restrictions on the establishment of new joint–stock bank branches. Thus, the joint–stock banks of the main centres – to compensate for shortfalls in the deposit business through the fragmentation of the deposit market and the rising cost of their operations – were forced to join in the much riskier but more lucrative industrial investment business. In pluralist states (UK, USA, Canada), on the contrary, market forces were absolutely free to develop; therefore the banks were not at all prevented from possessing a large network of branches, collecting local deposits and ousting the savings banks and other kinds of non–profit banking institutions from the market. In this way the non–profit credit system withered away. Here the investment business was left to specialized investment banks; that is to say, a specialized banking system was born.[94]

This political explanation for the development of the Hungarian banking system does not seem convincing. Although in the dualism of the pluralist and corporative systems Hungary certainly stood nearer to the latter, the non–profit financial sphere did not receive state support. As we have mentioned, the savings banks were transformed into deposit banks partly due to the lack of privileges. In addition, the fact that a considerable amount of mortgage–loan business was performed by profit–orientated corporative and savings banks, shows that this segment of the credit market was not given preference by the state either.

[93] R.H. Tilly *op.cit.*(1989), pp. 193–196. D. Verdier *op.cit.* (1996), pp. 15–26.
[94] D. Verdier *op.cit.* (1996), pp. 17–18.

Consequently, a state–controlled capital–market fragmentation is out of the question.

In recent research on banking history the role of the state has also been emphasized in another respect, namely, regarding the regulation of the central bank, especially in the German case. According to this interpretation in Germany the private *Notenbanken* were annulled and a state-issuing bank was established in favour of the aristocracy – but also taking the interests of the high bourgeoisie into account – enabling these groups to obtain credit more favourably.[95] The foundation of the central issuing bank – that is, the *Reichsbank* – in the middle of the 1870s on the one hand helped the joint–stock banks by making it possible for them to use its extensive network of branches to handle their payment turnover. On the other hand, and even more importantly, the *Reichsbank* practically provided a liquidity guarantee for them, ensuring very good discounting opportunities. This guarantee, as opposed to the situation of the English banks, for instance, which had no guarantee of the kind at their disposal, enabledGerman banks to handle large–scale, long–term investment ventures.[96]

From this point of view, "the banks' bank" in Hungary, that is, the Austro–Hungarian Bank shows several similarities with the *Reichsbank*. This is particularly true for the period after 1887, when several major emendations were made in the statutes of the central bank. The previous rigid regulation of the 100 per cent precious metal reserve, regarding the issue of banknotes of over 200 million Forints was to be changed since it caused serious liquidity problems for the bank on several occasions. The minimum level for reserves was fixed at 40 per cent for note–issue, and up to the value of 30 million Forints in foreign bills of exchange (foreign currencies) were also included in the reserves. More, the bank became entitled to issue notes even for amounts over 200 million Forints in the event of financial trouble, if it paid a 5 per cent tax. The greater degree of mobility and stability gained in this way made it possible for the bank to avoid superfluous reserve–keeping.[97] This

[95] R.H. Tilly *op.cit.* (1966).
[96] R.H. Tilly *op.cit.* (1989), pp. 195–196.
[97] G. Kövér, "Az Osztrák–Magyar Bank, 1878–1914", in T. Bácskai (szerk.) *op.cit.* (1993), pp. 274–275.

change, followed an amendment of the statutes of the *Reichsbank* a couple of years earlier.[98]

In the light of this, John Komlos refers to the post–1887 discounting policy of the Austro–Hungarian bank as "aggressive".[99] The big Hungarian banks did in fact enjoy very good credit conditions at the central bank, which undoubtedly increased their liquidity. However, this opportunity was only taken advantage of to a lesser extent in investment banking business. The big banks did not usually exploit their credit facilities, but the issuing bank floated loans primarily to savings banks dealing with personal credit business.[100] Thus, the discounting policy of the central bank did not prove to be as decisive as that of the German central bank in shaping the financial structure.

All things considered the question is how the peculiarities of the Hungarian banking system, in the first place its ambiguous universality, can be explained. To answer this further investigations clearly need to be carried out, since it seems much more complex than in the case of a good number of other countries, where capital scarcity, government policy and the policy of the Central bank provide an adequate explanation. In any case foreign influence appears to be an important factor in the establishment of universal banks in Hungary. On the one hand, this is found as a direct influence: the business of "crèdit mobilier–type" banks came like a blast in the 1860s, directly in the wake of foreign influence and based on patterns from abroad, first of all intermediated by Austria. The formation of a high comparative financial ratio may have been promoted by foreign capital, led by Austria. On the other hand, the diffusion process may have been the result of the close personal and business relationships between Austrian and Hungarian banks.[101]

[98] E. März and K. Socher *op.cit.* (1973), pp. 337–365.; J. Komlos. "The Diffusion of Financial Technology into the Habsburg Monarchy Toward the End of the Nineteenth Century", in J. Komlos (ed.), *Economic Development in the Habsburg Monarchy in the Nineteenth Century*, (New York 1983).
[99] J. Komlos *op.cit.* (1983).
[100] G. Kövér, "Az Osztrák–Magyar Bank, 1878–1914", in T. Bácskai (szerk.) *op.cit.*. p. 299., p. 337.
[101] J. Komlos. *op.cit.* (1983).

Future research, moreover, should pay greater attention to the significance of cultural factors in Hungarian banking history. Above all it may have been the low level of human and social capital that prevented the non–profit–oriented institutions from gaining ground, and thus the major reason why communal savings banks declined was the fact that local communities were rather underdeveloped. This, at the same time, explains the relatively high number of joint–stock financial institutions as well, which could be one of the factors that gave rise to a low level of concentration and universality. The popularity of banks based on ethnic principles contributed to the fragmentation of the capital market. The lack of modern business management techniques was presumably instrumental in the low degree of concentration and the limited branch network of big banks.

5. The development of banking after the First World War

Despite its diversity, the development of banking in European countries after the First World War did show a few general characteristics. In the 1920s the instability of banks increased all over Europe and, partly as consequence of this, banks continued to merge. There were various new forms of state intervention, and in addition the competitive advantages of the rivals of big banks grew as a result of which they were strengthened.[102] In the following, we will examine trends in the development of Hungarian banking in the period between the war and the 1931 financial crisis.

The process of concentration that continued during and after the First World War was especially vigorous in Great Britain and Germany. In Great Britain the "Big Five" came into being in 1917–18, possessing more than 75 per cent of deposits, but henceforth the number of institutions

[102] H. James, *General Trends: A Search for Stability in Uncertain Conditions*, in M. Pohl (Hg.) *op.cit.* (1993), p. 346. C.H. Feinstein and P. Temin and G. Toniolo, "International Economic Organization, Banking, Finance, and Trade in Europe between the Wars", in C.H. Feinstein (ed.) *op.cit.* (1995), pp. 9–73.; G. Hardach, "Banking in Germany, 1918–1939", in C.H. Feinstein (Ed.) *op.cit.* (1995), p. 269–295. Fritz Weber, "From Imperial to Regional Banking, The Austrian Banking System, 1918–1938", in C.H. Feinstein (ed.), *op.cit.* (1995), pp. 337–357.

further decreased when the five biggest banks merged with small and medium banks one after the other.[103] In Germany the concentration of banks did not reach the level of Great Britain, but the rapidity of the amalgamation process is shown by the fact that between 1914 and 1925 *Deutsche Bank* absorbed 21, *Discontogesellschaft* 29, *Bank für Handel and Industrie* 36, and *Commerzbank* 42 banks.[104] Furthermore, several of the biggest banks merged with one another (for instance, in 1922 *Darmstädter Bank* and *Nationalbank für Deutschland* and in 1929 *Deutsche Bank* and *Discontogesellschaft*). As opposed to Britain, in Germany amalgamation went on in the second half of the 1920s.[105] Austria had a similarly remarkable scale of amalgamation. Although during the post–war inflation the number of corporate and private banks doubled as compared to the 1913 total of 175, by 1927 it came close to the pre–war level again and in the following years it dropped below that. Merging was a typical means of handling the crisis.[106]

In Hungary the number of banks substantially increased in the post–war years of inflation. A great number of the newly founded financial enterprises were kept going only by way of speculation and profit opportunities created by the inflation boom. Most of them ceased to exist after stabilization. In the second half of the 1920s the number of financial institutions further decreased but to a lesser extent. Hungarian banks and savings banks totalled 1838 in 1928, which exceeded the 1913 number of institutions operating in the same territory of the country. The banks in Budapest, for instance, numbered 282 in 1928, which was a third more than the 1913 level, though at that time Budapest had been the centre of a prosperous money–market in a country with double the post–war population.[107] (The disproportion is somewhat reduced if we take into account the substantial increase

[103] F. Capie, "Commercial Banking in Britain Between the Wars", in C.H. Feinstein (ed.), *op.cit.* (1995), p. 398. K.E. Born *op.cit.* (1977), p. 445.
[104] H. James, *op.cit.* (1993), p. 347.
[105] G. Hardach, *op.cit.* (1995), p. 277.
[106] D. Stiefel, "Österreich", in H. Pohl (Hrsg.) *op.cit.* (1993), pp. 441–442. F. Weber, *op.cit.* (1995), p. 338.
[107] T. Surányi–Unger, *Budapest szerepe Magyarország gazdasági életében*, (Budapest 1936), pp. 13–14.

in bankruptcies and liquidations in 1928.) In this period the development of banking was primarily characterized by a strengthening of medium–sized institutions. As compared to the pre–war period, by 1927 the assets of the biggest banking houses increased in relation to those of all the banks, but decreased in relation to the medium–sized banks. In 1913 the six leading banks possessed 62.6 per cent of the assets of the 13 biggest banks and the Post Savings Bank, and in 1927 this percentage was slightly reduced to 61.5 per cent. In Hungary there was no question of a quasi–monopoly taking shape as in Austria, where *Creditanstalt* grew much more than its competitors.[108] The great number of banking institutions with a growing network of branches and the slowness of concentration continued to characterize the Hungarian credit system.

In the period after the First World War growing bank instability was evident all over Europe. Germany was most heavily hit by the crisis, but Austria was another of the countries which went through the greatest difficulties. Contemporaries blamed the universal banking system for the severity of the financial crash, and this view is still widely accepted.[109] The relative stability of Hungarian banks enjoyed during the crisis was at least partly due to the fact that, following growth during the war, in the years of inflation the economic role and the mixed–bank activity of Hungarian banks, was reduced again as a result of losses in their assets and the abundance of money.[110] Although the industrial business activities of the banks were modest compared to their height during the World War, mainly through the absence of favourable business opportunities in this branch, some of the banks – for example, the Italo–Hungarian Bank – consciously made strong efforts to wind up or, at least reduce,

[108] E. März, *Österreichische Bankpolitik in der Zeit der grossen Wende, 1913–1923*, (Wien 1981). F. Weber *op.cit.* (1995), p. 339.

[109] B. Bernanke and H. James, "The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison", in R. G. Hubbard (ed.), *Financial Markets and Finacial Crises*, (Chicago 1991), p. 58.

[110] For losses of capital by banking institutions see: E. György, *Az infláció mérlege*, (Budapest 1932), p. 11–22. István Varga, 'Tőke és infláció', *Közgazdasági Szemle*, (1926), pp. 526–588.; On similar changes in their spheres of interest see: Á. Pogány *op.cit.* (1989), pp. 533–534.

their interests in the industrial sector. In addition to the sluggishness of bank amalgamation, which increased the margin of industrial companies, this was also brought about by the fact that the industrial enterprises became even more self–financing than they had been before.[111] According to the calculations of István Varga, the proprietory share of the biggest Budapest banks in the share capital of industrial companies was 143.4 million Pengö in 1925 and 176 million Pengö in 1937. This growth, however, seen in the level of assets, masked a significant real decrease: the 1925 figure of 15.7 per cent fell to 9% in 1937.[112] Considering the question from the point of view of industrial companies an even deeper decline is revealed.[113] Calculations of this kind, however, have to be addressed cautiously, because in the latter case it was only the number of industrial companies that was taken as a basis. Since, however, subsequent calculations, then not taken into account, have not yielded substantially different results,[114] the view that the influence of banks on industry greatly increased during and after the depression does not seem appropriate.[115] Thus unlike Belgium or Italy, in Hungary the universal banking system was not liquidated by legal enactments after the crisis.

Nevertheless, the Hungarian banking structure did not remain unchanged after the First World War. In accordance with international tendencies we can observe a shift from traditionally structured and functioning banks to banks with specific operation areas and licences, which were mostly jointly founded by the state and private enterprise, in favour of the latter.[116] These institutions performed in the first place specific tasks (Central Corporation of Banking – 1916; Central Credit Co–operative of Manufacturers – 1920; National Industrial Mortgage–loan Bank – 1928; Hungarian Liability Insurance Bank – 1931; etc.) and at the

[111] E. A. Boross, *Inflation and Industry in Hungary, 1918–1929*, (Berlin 1994).
[112] I. Varga, 'A jelentösebb budapesti pénzintézetek helyzete az 1927. év végi mérlegek adatainak tükrében'. *Közgazdasági Szemle* (1928), pp. 444–485. S. Varga, 'Die industrielle Beteiligung der Banken in Ungarn', *Ungarisches Wirtschaftsjahrbuch*, (1940), pp. 205–208.
[113] S. Varga *op.cit.* (1940), pp. 205–208. Á. Pogány, *op.cit.* (1989), pp. 529–549.
[114] András Schranz puts the number of the industrial interests of the 7 Budapest big banks at 160. See: A. Schranz, *Nagybankjaink érdekeltségi hálózata*, (Kassa 1944), p. 4.
[115] I.T. Berend and G. Ránki, *Magyarország gyáripara a második világháború előtt és a háború időszakában, 1933–1944*, (Budapest 1958), p. 386.
[116] K.E. Born *op.cit.* (1977), pp. 440–441.

same time they can also be seen as agents directly strenghthening state intervention in banking life. As a new type of bank, building societies/housing credit co–operatives came to the forefront in Hungary as well (The National Building Society – 1930; The National Small–Apartment–Building Co–operative), and banks also appeared that were to meet the credit demands of specific social groups. They worked either in joint–stock or co–operative form. In spite of the formation of specialized banking institutions small–scale specialization continued to be a characteristic of the Hungarian banking system.[117]

Growing state influence was one of the most strongly marked features of the banking system in several European countries between the two World Wars. It was not otherwise in Hungary, either. In the period up to the 1931 financial crisis the role of the state was more moderate, while in the subsequent period, following the credit crisis and as a consquence of the growing importance of the state in other areas of the economy, the economic activity of the state was considerably stronger. The main means of state interference in the banking system were legislation, state supervision and extension of the quasi-state sector entrusted with special tasks.

In Hungary – as in Germany and Austria – the state had already intervened directly in financial processes during the First World War.[118] It did not shed this role when the war ended either, as the transition from a war–time economy to a peace–time production posed many problems. In 1922 the previously abandoned system of foreign exchange restrictions was introduced again, the controlling centre of which was the Clearing–House for Foreign Exchange.[119] The demands for foreign exchange were prioritized, giving preference to the purchase of raw materials. Through these restrictions, such as the compulsory handing over of foreign exchange, it was possible to prevent the dual currency system from spreading, and to prevent the Korona as a means of payment from losing ground totally. At the same time, these measures greatly restricted the banks' currency and foreign-exchange trading.

[117] T. Surányi–Unger, *Magyar nemzetgazdaság és pénzügy*. (Budapest 1944), p. 152.
[118] T. Surányi–Unger *op.cit.* 81944), p. 152. I. Károlyi, *A magyar Devizaközpont működésének ismertetése és méltatása, 1916–1925*. (Budapest 1927).
[119] I. Károlyi *op.cit.* (1927).

While before the First World War only one–fifth of short–term credit was provided by the central bank and the rest had to be raised by the banks themselves, in the inflationary economy the newly established bank of issue, the Public Note Institution covered a large part of the economy's credit demands. The banks themselves were largely dependent on the inflationary financing of the central bank, which showed the limited economic significance of the big banks mentioned above.[120] The increase in state interference in credit matters is well illustrated by the activity of the Central Corporation of Banking, which also performed classic bank–supervising tasks. The Central Corporation was only established provisionally for a period of five years in 1916 and it was authorized to control financial institutions which took out a loan from the Central Corporation or themselves requested controls. In most European countries comprehensive bank–supervision was introduced only during the depression (for example, in Germany in 1931, in Belgium in 1934/1935, in Switzerland in 1935 and in France in 1941). However, in Hungary, following the 1920 reform on the the Central Corporation, its duties included on the one hand contributing to implementing the government's credit controls and taking part in enterprises of public interest; on the other hand, its supervisory powers spread to every member of the Central Corporation whose share capital did not exceed 40 million K, as well as to bigger branches of the periphery of the institutions. Moreover, after 1921 only the members of the Central Corporation were entitled to accept deposits for savings passbooks, or to handle public funds. The Central Corporation was responsible for the a compulsory control over these companies.[121] There were other regulations which were of lesser significance, regarding, for example, the drawing–up of balance–sheets, which also affected the business policy of credit companies.

It can be argued that, through early state interference and the bank-supervision measures taken by the government and the central bank, the Hungarian banks - compared to their Austrian or German counterparts

[120] *A magyar hitelpolitika az 1920–1944 években.* (Budapest 1946), p. 14.
[121] *A Pénzintézeti Központ első huszonöt éve. 1916–1941.* (Budapest 1942), pp. 56–60.

- survived the crisis with relatively few losses.[122] There were no spectacular share–capital reductions, running down of reserves or writing off of assets. In addition, among the causes of the relative solidity of Hungarian banking institutions was the fact that the leading companies had conservative business policies, with a strong emphasis on liquidity. The Hungarian banks did not take part in large–scale speculations as, for example, their Viennese counterparts did, and they did not immobilize vast capitals in industry like *Creditanstalt* had done.[123] Thus the state – as opposed to the situation in Austria and Germany[124] – was not bound to provide public resources to aid the banks, and neither was provision made for nationalisation . Legislation measures proved sufficient to mitigate the consequences of the credit crisis.

[122] J. Jonker and J. L. van Zanden, "Method in the Madness? Banking Crises between the Wars an International Comparison", in C.H. Feinstein (ed.) *op.cit.* (1995), pp. 77–93.
[123] On the breakdown of Creditanstalt and its antecedents see:
A. Schubert, "The Causes of the Austrian Currency Crisis of 1931", in J. Komlos (ed.), *Economic Development in the Habsburg Monarchy and in the Successor States*, (New York 1990), pp. 89–113. D. Stiefel, *Finanzdiplomatie und Weltwirtschaftskrise*, (Frankfurt am Main 1989). E. März, *op.cit.* (1983), pp. 124–131.
[124] D. Stiefel *op.cit.*(1989). K.E. Born, *Die deutsche Bankenkrise 1931. Finanzen und Politik*, (München, 1967).