

# *From the Cradle to the Grave? Banking and Industry in Budapest in the 1910s and 1920s*

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In the famous novel of Lajos Hatvany<sup>1</sup> the Heine and Börne enthusiast Hermann Bondy, wheat merchant and money lender, is not willing to invest money in an old mill, which has passed into his hands in consequence of illiquidity. His Petöfi aficionado son, Zsigmond, the would-be promoter of a joint stock investment bank, the devotee of the passionate nationalist sentiments of early dualism considers it a patriotic duty (and a lucrative business as well) to help and assist domestic industry and agriculture. The annual business reports of the big Budapest banks in the 1910s were radiating the same patriotic self-consciousness; they proudly listed the numerous branches and industrial companies that enrich the nation with the help of the financial institutions.

At the turn of the century we observe another perspective, which was inclined to see international conspiracy, the deprivation of the nation and the plutocratic desire for power behind the close relationship between banks and industry.

These above are the two — rather ideological — patterns which appear even now fairly often in the literature of economic history, dealing with bank-industry relations. The figure of the benevolent banker of Gerschenkron, who helps the companies through every adversity from the cradle to the grave is not far from the picture drawn by the banks of themselves at the turn of the century.

<sup>1</sup> HATVANY LAJOS, *Urak és emberek*. Budapest, Szépirodalmi Kiadó 1963.

And the ideas used by marxist historiography in portraying the figure of the "Finanzbankier" with sarcasm were often rather similar to those of right-wing radicalism.

A contemporary Hungarian expert defined the industrial sphere of influence of the banks which he considered as a group of companies, legally independent but economically unified able to make a planned and rational economy and unified business strategies possible.<sup>2</sup> Austrian marxist authors considered banks as organisers of production, and eliminators of devastating competition as well.

German authors — starting with the classic work of Riesser<sup>3</sup> — assum a chronological order in the development of bank-industry relations: it begins with current account, followed by share issues and ending in interlocking directorates.

Eduard März claims more cautiously: "Die Einflussphäre einer Bank ist ... ein sehr diffiziler Begriff der sich nicht allein aus dem Effektenbestand ableiten lässt. Es gibt Beispiele dafür, dass sich eine Bank aus den führenden Gremien einer Unternehmung zurückzog und gleichzeitig ihre starke Gläubigerposition und Minderheitsbeteiligung beibehält".<sup>4</sup>

György Kövér is also careful to qualify: coming within the sphere of influence, share ownership and lending does not necessarily lead to mutual preconditioning.<sup>5</sup>

Bank-industry relations could take many forms in practice: simple personal ties, various forms of credit, promotion, emission of shares, increase of capital, management of reorganization or merger etc. Interested companies could create their own

<sup>2</sup> SIFTÁR ZOLTÁN, *A magyarországi pénzintézetek ipari érdekeltségei*. Budapest, 1927 (p.h. diss) pp. 6-7.

<sup>3</sup> RIESSER, *Die deutsche Grossbanken und ihre Konzentration in Zusammenhang mit der Entwicklung der Gesamtwirtschaft in Deutschland*. Jena, Verlag von Gustav Fischer, 1912, p. 303.

<sup>4</sup> EDUARD MÄRZ, *Österreichische Bankpolitik in der Zeit der grossen Wende 1913-1923. Am Beispiel der Creditanstalt für Handel und Gewerbe*. Verlag für Geschichte und Politik. Wien, 1981, p. 73.

<sup>5</sup> GYÖRGY KÖVÉR, *Banking and Industry in Hungary before 1914* (Manuscript, 1988).

spheres of influence as well; some examples can be found in the practice of the Hungarian Commercial Bank of Pest. In 1907, the Commercial Bank promoted the "Star Mill Ltd" in Galac together with "The First Steammill of Budapest" (founded by the Commercial Bank in 1863). In 1916 the "First Steammill Ltd" took over the mill shares from the Commercial Bank (e.g.: Steammills at Zombor and Pancsova, rolling mill at Vác).<sup>6</sup>

The various forms of bank-industry relations could imply rather different ties between credit institutions and the companies and do not disclose by themselves the true power relationships between them: were the partners equal or did one of them dominate the other? This is why I feel that the idea of the sphere of influence is hardly definable. Preparing table 1. I did not set up new criteria concerning the definition of sphere of influence. I rather accepted the data of the bank reports with their lists of interested companies.

The criteria of selection are given in the jubilee volume of the Hungarian Commercial Bank of Pest. The companies not listed under the sphere of influence are the following: those having only personal ties with the bank (Manfréd Weiss Works), those where the bank is represented on the board but has not got capital tied up in the company (The Textile Notes of the Kammer Brothers); the selling agencies promoted by interested enterprises (the spirits — or the match marketing companies); those where the banks was not the chief promoter, but where it took part in the foundation (Hungarian Natural Gas Ltd — chief promoter: Deutsche Bank A.G.); and those where the bank had a minority share ownership and did not play the leading role.<sup>7</sup>

The Budapest banks had already developed industrial connections well before the turn of the century and the years before

<sup>6</sup> HEGEDŰS LÓRÁNT, *A Pesti Magyar Kereskedelmi Bank keletkezésének és fennállásának története. II. kötet* Budapest, 1917. pp. 306-310.

<sup>7</sup> HEGEDŰS LÓRÁNT, *op. cit.* p. 277.

the Great War show clearly that one can speak about "spheres of influence". Not every bank had industrial connections of course; among the 98 registered banks of 1910 only 28 enumerated one or more interested companies in their reports (table 1). Only in the case of the big institutions can we find stable industrial clientele: small and medium sized banks hardly dealt with this kind of business. In 1910, 80% of the interested enterprises belonged to the big banks, 50% of them to the four biggest ones. Table 1 indicates that there was no direct connection between the amount of capital and the extension of the sphere of influence. Despite its considerable capital the United Savings-bank of the Capital Budapest did not mention a single company in its report. The First Domestic Savings-bank of Pest, one of the biggest institutions in the capital — did not have its own industrial clientele either, but the National Banking Corporation (set up by the First Domestic Savings-bank) had an obligation to deal with enterprises.

Behind the Hungarian Discount and Exchange Bank stood a banking group (each of the members was founded by the Exchange Bank and the Madarassy-Beck family was represented on each board).<sup>8</sup> The sphere of influence of the six banks together was extensive compared to that of the other banks, although the six members had interests (*Beteiligung*) in the same companies in several cases. Such cumulative problems arose with other banks as well. In the case of share emissions, and promotions demanding larger amounts of capital, banks often cooperated with one another, and founded share-issue syndicates. Ganz Works belonged to the sphere of influence of both the Hungarian General Creditbank and the Hungarian Discount and Ex-

<sup>8</sup> MARCELL MADARASSY-BECK was the general manager of the Exchange Bank. Members of the banking group: Hungarian Traffic Bank (Marcell Madarassy-Beck - member of the board), Hungarian General Estate Bank (Marcell Madarassy-Beck - president), Hungarian General Estate Bank (Miksa Madarassy-Beck - vice president), Hungarian Commercial Creditbank (Marcell Madarassy-Beck: member of the board), Hungarian Settlement and Parcellisation Bank (Gyula Madarassy-Beck: vice president, Marcell Madarassy-Beck: member of the board).

Table 1  
SPHERE OF INFLUENCE OF THE BUDAPEST BANKS 1910-1928

BANK	Year of foundation	Own capital			Sphere of influence (number of companies)					
		1910 million crowns	1920 million crowns	1928 million pengős	1910	1920	1928	Stable in the period:		
								1910-20	1910-28	1920-28
1. Hungarian General Creditbank Ltd	1867	96.5	871.5	61.8	49	130	76	29	18	38
2. Hungarian Commercial Bank of Pest Ltd	1841	117.7	314.2	52.0	40	57	66	26	11	19
3. Anglo-Austrian Bank Ltd <sup>1</sup>	1863	96.8	350.3 <sup>2</sup>	1.96 <sup>3</sup>	31	45	—	10	—	—
4. Anglo-Hungarian Bank Ltd <sup>4</sup>	1890	59.55	399.0	23.56	30	155	46	12	3	26
5. Hungarian Discount and Exchange Bank Ltd	1869	47.17	199.56	18.0	19	64	28	9	3	17
6. Hungarian Traffic Bank Ltd <sup>5</sup>	1898	0.81	49.8	3.25	—	24	4	—	—	3
7. Budapest Representation of the Wiener Bankverein	1889	150.3	605.7	82.0	18	18	11	15	5	6
8. National Banking Corporaton Ltd	1894	40.4	194.6	15.0	13	26	25	9	6	15
9. Budapest Bank Ltd	1904	10.25	—	—	11	—	—	—	—	—
10. National Central Savingsbank of Hungary Ltd	1872	31.85	81.3	22.0	9	13	22	3	2	3
11. National Hungarian Railways Savingsbank Ltd	1899	1.5	—	—	5	—	—	—	—	—
12. Hungarian Agrar and Annuity Bank Ltd	1895	24.7	78.7	—	4	31	—	—	—	—
13. City Savingsbank Company Ltd	1892	15.4	43.3	13.0	4	1	6	1	—	—
14. Hungarian Italian Bank Ltd <sup>6</sup>	1920	3.25	594.0	23.0	4	54	15	—	—	6
15. Hungarian General Savingsbank Ltd	1881	23.07	155.0	9.74	3	44	28	2	—	13
16. Hungarian Settlement and Parcellisation Bank Ltd	1904	5.3	—	—	3	—	—	—	—	—
17. "Hermes" General Hungarian Exchange Office Ltd	1893	4.13	18.8	4.18	3	7	21	2	1	4
18. Budapest Savingbank and National Lombardbank Ltd	1893	16.85	—	—	2	—	—	—	—	—

From the Cradle to the Grave? Banking and Industry in Budapest in the 1910s and 1920s

BANK	Year of foundation	Own capital			Sphere of influence (number of companies)					
		1910 million crowns	1920 million crowns	1928 million pengős	1910	1920	1928	Stable in the period:		
								1910-20	1910-28	1920-28
19. Hungarian Commercial Creditbank Ltd	1905	5.0	69.1	3.06	2	14	9	1	1	7
20. National Savingsbank and Bank Ltd <sup>7</sup>	1893	5.46	49.0	1.47	2	10	4	1	—	3
21. Amortizationsbank Ltd	1906	2.0	—	—	2	—	—	—	—	—
22. Hungarian General Real Estate Bank Ltd	1906	1.67	37.5	6.0	1	13	10	—	—	5
23. Budapest Savingsbank of the I. and II. District	1905	0.57	—	—	1	—	—	—	—	—
24. United Savingsbank of the Capital Budapest Ltd <sup>8</sup>	1846	40.98	71.85	—	—	9	—	—	—	—
25. First National Savingsbank of Pest Ltd	1839	40.0	127.3	25.0	—	1	6	—	—	1
26. National Industry Bank Ltd	1910	5.3	5.71	1.05	—	8	—	—	—	—
27. Mercur Exchange Office Ltd	1895	4.4	41.76	2.4	—	20	5	—	—	2
28. First Hungarian Industry Bank Ltd <sup>9</sup>	1864	7.62	67.96	—	—	11	—	—	—	—
<b>TOTAL</b>	—	—	—	—	256	755	382	120	50	168

Source: Pénzügyi Compass. Szerkesztette Kormos Alfréd 1911/12, 1921/22, 1929/30 volumes.

<sup>1</sup> 1928: Anglo-International Bank, Budapest Representative.

<sup>2</sup> Million austrian crowns.

<sup>3</sup> Million pounds sterling.

<sup>4</sup> 1910: Hungarian Bank and Commercial Ltd

<sup>5</sup> 1910: Traffic Bank Ltd for 1910, data are given with Hungarian Discount and Exchange Bank together.

<sup>6</sup> 1910: Hungarian Creditbank of Timber Merchants.

<sup>7</sup> 1910: Budapest - Elisabethstädter Bank.

<sup>8</sup> 1928: Fusion with the Savings-bank and Tollhouse Ltd.

<sup>9</sup> 1923: Fusion with the Hungarian General Creditbank.

Table 1 does not contain the banks that were founded after 1910 with the exception of the banks which had legal predecessors already in 1910.

change Bank. MFTR (Hungarian River and Seafaring Co Ltd) enjoyed the financial help of the Creditbank, the Exchange Bank and the National Banking Corporation. The Rimamurány-Salgótarján Ironworks was one of the most important industrial partners of the Budapest Representative of the Wiener Bankverein and of the Commercial Bank. The First Hungarian Economic Machine Factory became connected with the National Banking Corporation in 1897. The Commercial Bank obtained the majority of the shares of the latter in 1916, and the two banks signed a cooperation contract. Both banks were represented on the board, although the leading role was kept by the former manager, a brilliant expert in machine building.

A financial group under the direction of the Hungarian General Creditbank financed one of the most important food processing industrial branches, the sugar industry (its members were: The Hungarian General Creditbank, The Hungarian Discount and Exchange Bank, The First National Savings-bank of Pest, The First Hungarian Industry Bank, The National Banking Corporation, The Anglo-Austrian Bank, The National Savings-bank).<sup>9</sup>

During the years of inflation, bigger companies could not have worked with the financial backing of only one bank; they needed the credit support of more institutions.

It was not infrequently companies changed partners. For example, Budapest-Szentlőrinczi Brickworks Ltd was an industrial partner of the Budapest Bank in 1910, while after 1920 it passed into the sphere of interest of the Creditbank. The concentration of the spheres of influence did not change a lot during the 1910s and 1920s. Big banks were interested in more than 75% of the industrial enterprises having bank connections (table 2). Medium-sized banks increased their spheres of influence at a rate above the average in the inflation years and reduced it at a rate below the average in the post-stabilization era, so they in-

<sup>9</sup> OL Z5 103/1921, 697/1922 (National Archive).

Table 2  
STRUCTURE OF THE SPHERE OF INFLUENCE  
OF THE BUDAPEST BANKS 1910-1928

	Number of enterprises			Structure (%)		
	1910	1920	1928	1910	1920	1928
Big banks	209	594	295	81.6	78.7	77.2
Medium-sized banks	24	102	65	9.4	13.5	17.0
Small banks	23	59	22	9.0	7.8	5.8
TOTAL	256	755	382	100.0	100.0	100.0

Source: Table 1.

creased their share from 10% (1910) to 17% (1928). The share of the small banks was reduced from 7% to 5% in the same period.

The Great War and the years coming after it brought about a sudden change in the field of banking and industry as well. Big Budapest banks helped the war-time governments not only to finance the war and issue war bonds, but to develop the system of war economy as well. In this way they could widely exploit their contacts with industry. Through their interest in the milling industry, Budapest banks were able to organize the corn supply of the army and the capital, while the agency of produce delivery and corn supply (Haditermény Rt) was also set up with their help.

The food demands of the capital were largely met through the Hungarian Foodtransport Ltd. This company, which was founded by the Ministry of Commerce and Agriculture, the "OMGE" (a pressure group of the big landowners), the Hungarian State Railways and the Council of the Capital Budapest in 1896, was set up originally to help Hungarian food exports and to curb the high food prices in Budapest. In spite of the large amounts of state subvention, the company continuously showed a deficit. In 1912, it became part of the sphere of influence of the

Commercial Bank in consequence of a loan (for a cold storage system) and of the fact that the bank now had a representative on the board. The war-time food shortage and the change in the company's leadership (the bank appointed a new manager — Samu Stern, the former manager of the General Dairy of Budapest, an associated company of the Commercial Bank) had very positive effects. The firm grew very fast and became the largest food supplier of the capital, and one of the most lucrative companies of the bank.

The representatives of the big banks and the biggest companies under their umbrella were to be found in the most important organs of the war economy (Kriegswirtschaftliche Zentralen) as well. Gyula Klein, vice-president of the Creditbank was esteemed to be the main manager of the whole system of war economy;<sup>10</sup> Pál Biró (member of the board of the Commercial Bank, general manager of the Rimamurány-Salgótarján Ironworks, son in law of the president of the Commercial Bank) was one of the eight members of the Eisenwirtschaftsrat in Vienna.

Companies working on government or military contracts had already deserved special attention from the banks well before the war. It is noteworthy that many companies of this kind belonged to the sphere of influence of the Commercial Bank. The majority of its textile works partners produced military cloth, blankets and underwear for the army; the mines, iron and chemical works often accepted military contracts before 1914.

The war brought changes in the business policy of the banks as well. Shortage of income, in consequence of the downturn affecting their regular business, was recovered mainly by revenues arising from considerable extension of transactions in goods and spheres of influence. The industrial clientele of the Budapest banks increased unexpectedly between 1910 and 1920; the data of table 3 suggest that it nearly tripled. Spheres of in-

<sup>10</sup> RADNÓTI JÓZSEF, *Pesti pénzoligarchiák*. Budapest, 1929, p. 44.

Table 3  
GROWTH OF THE SPHERE OF INFLUENCE  
OF THE BUDAPEST BANKS 1910-1928

	1920 1910=100	1928 1920=100
Big banks	331.8	49.7
Medium-sized banks	425.0	63.7
Small banks	256.5	37.3
TOTAL	294.9	50.6

Source: Table 1.

terest were increased especially by medium, sized institutions, which quadrupled the number of their interested enterprises. The big banks enlarged their industrial clientele at a pace near to the average while the small banks remained below the average. According to the data of Szádeczky-Kardoss the growth was even faster. He accounted for 1235 interested enterprises in 1924 and, in his opinion, middle banks increased the number of their companies eightfold.<sup>11</sup>

The years between 1921 and 1924 represented a real golden age for the development of smaller banks; in 1923 alone, 72 new banks were introduced into the register, the majority of which were promoted directly with the purpose of setting up enterprises. Bigger banks also established small banks. The Hungarian City Bank was set up by the Hungarian Mortgage Bank, so as to promote enterprises as an active small bank. Because of its activity, it was named "shares factory", by contemporaries. This was not without good reason since in the short period of its activity it floated no less than 3,750,000 shares.<sup>12</sup> A considerable

<sup>11</sup> SZÁDECZKY-KARDOSS TIBOR, *A magyarországi pénzügyintézetek fejlődése*. Budapest, 1928. pp. 165-168.

<sup>12</sup> RADNÓTI JÓZSEF, *Mi volt itt? A konjunktúra története Hededüs Lóránt bukásától Popovics Sándor eljövételéig*. Budapest, 1926. p. 38.

Table 4

NUMBER AND STRUCTURE\* OF THE STABLE INDUSTRIAL PARTNERS  
IN THE SPHERE OF INFLUENCE OF THE BUDAPEST BANKS

	1910-1920		1910-1928		1920-1928	
	Number	%	Number	%	Number	%
Big banks	113	19.0	48	16.3	131	44.4
Medium-sized banks	4	3.9	—	—	22	33.8
Small banks	3	5.1	2	4.3	15	68.2
TOTAL	120	15.9	50	13.1	168	44.0

\* Percent of the stable partners to the total number of partners at the end of the period.

Source: Table 1.

extension of the sphere of influence of banking institutions is also evidenced by the fact that the majority of the interested firms revealed in 1920 were new acquisitions (table 1 and table 4); only 16% of them had already existed in 1910. The scope of the sphere of influence of the big banks showed the greatest stability, for 19% of their enterprises were within their competence already in 1910. But as regards the small and the medium-sized banks, their industrial partners, taken as a whole were not older than 10 years, since only 4-5% had been associated with them in 1910.

By 1928, the sphere of stable clientele had narrowed further, and only 13% of industrial companies had not changed their banking partner. Medium-sized banks no longer had any of their 1910 enterprises. Compared to 1920, there had been also a sharp reduction in the clientele. By 1928, only 44% of the 1920 sphere of influence had not altered, while medium-sized banks had kept nearly 70% of the enterprises under their umbrella.

What were the reasons for the rapid changes in the war and inflation years? On the part of the banking institutions, it was the profit derived from creating and introducing shares into the exchange, which far exceeded the revenues resulting from regu-

lar transactions during the period of accelerated inflation, particularly now that bill crediting had become a loss making business. At the beginning of the twenties such a great impulse was given to stock-exchange transactions that the banks were able to undertake commissions only by continuous, round the clock work and the share departments of some greater banking institutions gave work to hundreds of employees.<sup>13</sup>

The industrial enterprises also strove to establish connections with banking institutions, since in times of scarcity of money only bank-connected enterprises could get bank credits and the unvalorized credits of the central issuing banks (at an advantageous rate) could be got mostly through the great Budapest banks.

If we take a look at the regional division in the interested firms of the Budapest banks (table 5), we can see that more than the half of them could be found in Budapest in 1924. More than a quarter of the enterprises were set up in the country, 13% of them in the territories detached from Hungary following the Trianon peace-treaty (in the previous years this percentage share might have been much higher, taking the large number of affiliated banks and industrial enterprises etc. into account) and 8% of them were established outside the frontiers of 1914.

The big banks of Budapest had the largest share in foreign - located companies, as 16% of their enterprises were in detached territories, 11% of them in other foreign countries. The small banks concentrated their partners mostly in the capital; 70% of them were sited in Budapest.

Studying the branch structure of the companies under the umbrella of the Budapest banks, their variety is seen to be their most characteristic feature (table 6). Only half of them were represented by industrial enterprises, one fifth by banking institutions, and one sixth consisted of commercial agencies. Interest in

<sup>13</sup> ALFÖLDI ANTAL, *A budapesti pénzüintézetek története napjainkig*. Budapest, 1928. pp. 135-136.

Table 5  
REGIONAL STRUCTURE OF THE INTERESTED COMPANIES  
OF THE BUDAPEST BANKS

	Number		Percent	
	1914	1924	1914	1924
Budapest	216	637	48	52
Country	192	329	43	27
Detached territories	—	162	—	13
Abroad	40	107	9	8
<b>TOTAL</b>	<b>448</b>	<b>1,235</b>	<b>100</b>	<b>100</b>

  

	1914				1924			
	big.	med-siz.	small	total	big.	med-siz.	small	total
<b>Banks</b>								
Budapest	154	16	46	216	410	103	124	637
Country	145	6	41	192	237	51	41	329
Detached territories	—	—	—	—	146	9	7	162
Abroad	34	—	6	40	98	5	4	107

Source: T. Szádeczky-Kardoss: op. cit. p. 183.

Table 6  
THE BRANCH STRUCTURE OF INTERESTED COMPANIES  
OF THE BUDAPEST BANKS

	Number		Structure (%)	
	1910	1924	1910	1924
Banking- and credit institutions	93	254	28.4	20.6
Insurance companies	8	21	2.5	1.7
Industrial enterprises	134	582	41.0	47.1
Mining companies	9	24	2.8	1.9
Transport services	45	45	13.7	3.6
Commercial agencies	21	183	6.4	14.8
Agricultural companies	3	32	0.9	2.6
Institutions for public health	4	18	1.2	1.5
Catering services	1	11	0.3	0.9
Joint ventures	1	29	0.3	2.4
Other enterprises	8	36	2.5	2.9
<b>TOTAL</b>	<b>327</b>	<b>1,235</b>	<b>100.0</b>	<b>100.0</b>

Source: T. Szádeczky-Kardoss: op. cit. p. 191.

banking institutions was greater before the war than in 1924. Nevertheless the Budapest banks' business extension policy was resumed even after the 1st World War, and thus numerous banks were — through purchases of shares — affiliated, and many new banking institutions were promoted. During the period of 1921-24 the attention of the Budapest banks turned towards industrial enterprises. The number of their industrial enterprises increased fivefold compared to that of 1910.

Budapest banks considerably extended their food industrial sphere of influence with the incentives being created by agricultural prosperity and food-shortage. The Commercial Bank and the Creditbank increased capital in the pig-farm at Nagytétény and acquired interests in the butchers' co-operative for the marketing of fat and lard in Budapest. The Hungarian Discount and Exchange Bank extended its interest in the milling industry. The Mercur Exchange Office founded canning factories; Hungarian Bank and Trade Ltd obtained shares in the bone-processing limited company of slaughterers and butchers in Budapest; the Settlements Bank did the same in some meat industrial enterprises. In addition, a number of banks (e.g. Settlement Bank of Antal Éber), took big estates on lease and carried on direct agricultural production there.<sup>14</sup>

In 1924 about a fifth of industrial companies consisted of enterprises in the food processing industry (table 7). Machinery-construction, chemical, and wood and bone processing industries were also widely represented. The big banks acquired interests mainly in machinery-construction, spinning and weaving, and food processing industries. The small and the medium-sized institutions, on the contrary, preferred to finance undertakings in the paper industry and printing, as well as in the building material industry where small-scale industrial character prevailed. Chemical enterprises represented a great proportion (17.3%) in the case of the small banks.

<sup>14</sup> *ib.* pp. 85-86.

Table 7

STRUCTURE OF INTERESTED COMPANIES OF THE BUDAPEST BANKS  
ACCORDING TO INDUSTRIAL BRANCHES

	Number		%	Structure (%) of int. comp of 1924			
	1910	1924		1910	Big	Med-size	Small
				Banking institutions			
Iron and metals	14	45	10.5	8.2	7.3	5.3	7.7
Machinery	23	63	17.2	12.0	8.5	6.7	10.8
Stone-, clay- and glass	13	51	9.7	8.5	9.8	9.3	8.8
Wood- and bone processing	19	75	14.2	11.8	18.3	13.3	12.9
Leather and rubber	4	10	13.0	1.9	2.4	—	1.7
Spinning and weaving	18	65	13.4	12.7	3.7	10.7	11.2
Clothing industry	—	11	—	1.9	—	4.0	1.9
Paper industry	3	11	2.2	1.9	3.7	—	1.9
Food processing	20	114	14.9	21.2	14.6	16.0	19.6
Chemical industry	13	63	9.7	10.6	6.1	17.3	10.8
Printing	3	21	2.2	2.3	8.5	5.4	3.6
Building material	3	28	2.2	3.0	11.0	8.0	4.8
Other industries	1	25	0.8	4.0	6.1	4.0	4.3
<b>TOTAL</b>	<b>134</b>	<b>582</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: T. Szádeczky-Kardoss: *op. cit.* p. 203.

The high proportion of textile companies indicates that the banking institutions participated in promoting numerous spinning and weaving factories in Hungary, as a part of the Hungarian import substitution economic policy after the 1st World War, occasionally drawing on foreign capital in their promotional activity.

Following monetary stabilization (1924) bank-industry relations were again characterized by the renewal of regular credit business activities (bill and current account transactions) and by the consolidation of existing spheres of influence. The issue of securities showed a marked decline.

The banks reduced their share ownership considerably, because this was no longer necessary to such a degree. With the relative stabilization of the price-level, credit relations became set-

tled and the money institutions did not have to face negative interest rates on regular lending business. With their improving liquidity position, the banks could reduce their giant share portfolios which often hampered normal business (but which were the only sure income sources during the inflation period).

Stabilization meant broadening foreign credit possibilities for the industrial companies as well. The question of long-term industrial investment credits, which was an old and very serious problem of Hungarian business life, seemed to be settled. A new form of industrial credit appeared: industrial mortgage credit. In conformity with an act (art. 1928:XXV), the Hungarian Industrial Mortgage Credit Institute was established in the second half of 1928, and was entitled — by virtue of its special financial status — to issue industrial mortgage-bonds. By the end of its first business year, 31st. December 1928, it had ordered the payment of long term industrial credits of 3,514,000 dollars.<sup>15</sup>

Budapest banks consolidated their sphere of influence but nearly halved it (table 3). The shares they did not need were sold. For the banks, it was quite natural that some kind of shares remained in their portfolios, often for years, while they waited for the most opportune moment to sell them. In the Hungarian Financial Syndicate, established in 1921, the following institutions took part: The Hungarian General Creditbank, The Hungarian Commercial Bank, The First National Savingsbank of Pest, The National Mortgage Bank of Small-holders, The Hungarian Mortgage Bank, The National Association of Hungarian Mortgage Banks and The National Central Credit Cooperative. Originally the Financial Syndicate was set up as an exchange intervention group to purchase the shares paid from a capital levy from the treasury and later to realize them gradually, thereby defending enterprises paying levies from the crash in prices, which would have ensued in the case of an immediate

<sup>15</sup> SZIGETI GYLA, *Budapest hitelintézetei. Statisztikai Közlemények, vol. 63/2.* Budapest, 1935, p. 27.

realization of shares.<sup>16</sup> The syndicate remained intact even after the cessation of the capital levy and, among other business it financed operations such as the housing programme of the governments, the Hungarian Oil Syndicate, established for exploiting oil in Hungary, and the export office established along with the Ministry of Finances and the New York Trust Co.<sup>17</sup>

The Budapest banks endeavoured to help the few stable enterprises that remained under their umbrella find their place in the post-inflationary period. The Commercial Bank, with a view to the economic rehabilitation of the Rimamurány-Salgótarján Ironworks that had got into deep crisis after 1924, sold the shares of the Kaláni Metallurgical Works and Mines Ltd and Unio Iron and Tinworks Ltd. Making use of the foreign relations of the bank, it obtained a considerable amount of foreign credit for the works (one of the first foreign credit transactions in Hungary after the stabilization).<sup>18</sup> In July 1927, under the direction of the Hungarian General Creditbank through the transfer of shares, the Ganz-Danubius Machine Wagon and Shipyard Ltd merged with the Schlick-Nicholson Machine, Wagon and Shipyard Ltd and with the Kistarcsai Machine and Railway Equipment Factory Ltd. In December of the same year, the Lipták Works associated itself with them. A merger also took place between the Budapest-Szentlőrinczi Tile and Brick Factory and the Tile and Brick Factory at Tata under the supervision of the Creditbank. The Stone and Clay-Industry Ltd in Debrecen merged with The Tile and Brick Factory in Karcag.<sup>19</sup>

Examining the development of policy concerning the securities on the basis of table 8 a strong decrease in agricultural, banking and industrial investment can be observed after the year

<sup>16</sup> OL Z5 234/1921.

<sup>17</sup> MENCZER LAJOS, *A Pesti Hazai Első Takarékpénztár Egyesület százéves története Budapest 1940*. Vol. II. p. 129.

<sup>18</sup> JENEI KÁROLY, *A Pesti Magyar Kereskedelmi Bank és beolvadt vállalatai*. 1965 (Manuscript).

<sup>19</sup> SZÁDECZKY-KARDOSS TIBOR, op. cit. p. 153 and Alföldi Antal: op. cit. pp. 189-190.

Table 8  
COMPOSITION OF SECURITIES WHICH WERE IN POSSESSION OF THE BUDAPEST BANKS AND  
OF THE FUNDS AND FOUNDATIONS MANAGED BY THEM AT THE END OF THE BUSINESS YEAR (percent)

Securities	1913	1921	1922	1923	1924	1925	1926	1927	1928	1929
1. State debts	17.6	23.4	7.7	0.1	0.6	0.8	5.0	6.3	4.4	4.1
2. Other public loans	4.6	0.8	0.2	0.0	0.3	0.7	1.1	1.9	3.1	3.7
3. Debentures and government securities	32.9	3.1	1.8	1.3	0.5	0.3	1.1	8.9	10.0	14.6
4. Preference bonds	6.4	0.3	0.0	0.0	0.2	0.3	0.5	0.8	0.5	0.4
5. Shares of credit banks	13.7	16.0	12.6	32.4	30.4	28.0	28.0	23.0	22.3	23.5
6. Shares of insurance societies	0.7	0.4	0.6	1.3	1.4	0.5	0.5	0.4	0.4	0.5
7. Shares of agricultural undertaking	—	3.4	4.2	13.3	10.9	3.5	2.2	1.7	3.2	1.4
8. Shares of mining and industrial companies	3.8	39.2	64.7	47.8	47.3	52.3	44.1	35.5	36.7	33.1
9. Shares of traffic and transport services	15.1	3.9	4.0	1.1	2.0	5.5	5.6	8.3	7.7	7.8
10. Shares of trading companies	—	4.7	1.8	0.8	2.9	3.7	7.4	10.7	9.5	9.3
11. Other (theater, healthresort etc.) shares	4.8	4.8	2.4	1.9	3.5	4.2	4.5	2.5	2.2	1.2
12. Lottery tickets	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Statistical Year-book of Hungary, volumes between 1913-1930.

1925. On the whole, in contrast to the inflationary period, there was an increase in the stock of securities with fixed interest, state debts, other public loans, bonds and debentures. Among securities yielding different dividends, shares in transport, traffic and trading enterprises found a good sale.

Railways had always, been a preferential field for investment by Budapest banks but in consequence of the Trianon peace-treaty the banks and savings banks suffered serious losses in this very sector. In most cases, they had to part with the shares of local railways and shipping companies located in detached territories because of the nationalization endeavours of the successor states. Subsequent to financial stabilization, when the majority of foreign capital flowing in the country was assigned to develop the infrastructure, the banking institutions revived their interests in the field of traffic and transport.

Table 9 gives information about the sectoral distribution of syndicate interests of the banking institutions in Budapest. After 1925, the proportion of external interests increased, apparently in connection with the issue of debentures and the activity of the Association of Hungarian Banking Institutions for the Issue of Debentures and the Association of Hungarian Mortgage Institutions. In 1929, the external syndicates were followed by syndicates founded for financing industrial projects and only thereafter those related to banking transactions.

On the evidence of tables 1 and 3 we can say that the Budapest banks neither accompanied their enterprises from the cradle to the grave nor abandoned them. While industrial enterprises crossed the threshold of stabilization, holding at least half of their own capital of the prewar years or even increasing it significantly, banks and savings banks financing them could show only a much smaller proportion of their 1913 capital in their cash balance of 1st January 1925. The most advantageous rate in

<sup>20</sup> SZIGETI GYULA, *A magyar pénzügyi tőke és jövedelem*. Magyar Statisztikai Szemle 1932/5, p. 7.

Table 9  
DISTRIBUTION (%) OF SYNDICATE INTERESTS OF THE BUDAPEST BANKS  
AT THE END OF THE BUSINESS YEAR 1921-1929

Securities	1921	1922	1923	1924	1925	1926	1927	1928	1929
1. State and other public loans, mortgage-bonds and bonds	9.7	6.8	—	—	—	—	—	0.6	0.5
2. Traffic and transport undertaking	4.6	0.8	0.4	0.1	3.3	7.7	8.0	7.3	11.3
3. Banking transaction	27.9	37.5	46.5	60.3	5.4	3.5	2.2	1.1	13.8
4. Agriculture and parcelling	0.9	1.5	—	—	0.3	3.5	—	—	—
5. Forestry and lumbering	3.9	—	—	0.2	—	0.7	—	2.4	—
6. Mining and smelting enterprises	3.1	0.3	—	—	7.8	9.2	12.2	12.1	11.6
7. Agricultural industry	4.3	2.5	0.8	2.4	6.5	3.3	7.6	4.7	4.3
8. Other industries	21.1	25.0	28.3	16.6	20.1	19.6	15.5	20.8	16.0
6-8. Industry: total	28.5	27.8	29.1	19.0	34.4	32.1	35.3	37.6	32.9
9. Transactions in goods	1.4	8.2	5.0	4.2	4.7	—	—	—	—
10. Other commercial transactions	3.5	2.9	6.5	2.1	2.8	5.8	10.1	10.9	5.0
11. Others	3.4	1.8	1.1	2.9	—	1.6	4.0	3.4	3.1
1-11. Total internal	83.8	87.4	88.6	88.8	50.9	54.9	59.6	63.3	65.6
12. Total external	16.2	12.6	11.4	11.2	49.1	45.1	40.4	36.7	34.4
1-12. Internal and external	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistical Year-book of Hungary, volumes between 1921-1930.

capital preservation was produced by the two largest institutions, The Hungarian General Creditbank and The Hungarian Commercial Bank of Pest (37.4 and 25.1%, respectively). The others had preserved a smaller shave.

In the late twenties, the banks and savings banks in Budapest could do very little for the structural change which would have been so desperately needed in the economy of the country after so many upheavals: the war was followed by an inflation and stabilization crisis and shortly a new horror, the agricultural crisis, was about to make itself felt.

