

Information transfer in the local discount committees of the Austro-Hungarian Bank 1878-1914

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When, back in the day, I discovered several accounting history journals from the Anglo-American world (one published in the United Kingdom, one in the US, and one in Australia) sitting right next to one another on the shelf in the LSE Library, I realised that the transformation occurring simultaneously with the postmodern turn in history did indeed have an effect even on this seemingly esoteric field of specialty.¹ Historians in general tend to view accounting history as a dry and boring discipline. However, anyone who has seen a company's balance sheet being put together live (“*biláncolás*” in the Hungarian business slang of the era, from German “*Bilanzierung*”), or so much as read about it in a novel,² will never forget the overwhelming sense of excitement that drawing up the balance sheet involves. Company historians often have the opportunity to enjoy access not only to the companies' published balance sheets but also to the so-called internal balance sheets that lie around in their archives, and by comparing the two sets of records, they can attempt to arrive at conclusions. However, there is no guarantee whatsoever that the researcher, experienced as she or he may be in accounting as a profession, will necessarily be able to unveil the bag of tricks employed in drawing up a balance sheet, or, in other words, to detect what items were “hidden” in what lines, or what disparate items were consolidated into a single amount. Interviewing executives of the relevant firms is also a common practice in business history. While perusing *Accounting History*, I noted an ideal-typical example. While being questioned about the actual practice of drawing up the balance sheet, a former chief accountant elaborated on what invoices were normally allocated to what lines of the balance sheet. In this respect, the accounting historian assumed a basic stance that was radically different from both the approach of the premodern historian and that of the oral historian. Hearing the chief accountant's statements, the premodern historian would have thrown up his or her hands in despair, jumping to the conclusion that as the balance sheet stated false data the records were simply useless as historical sources. A true oral historian, however, would rub his or her hands in excitement: Finally, a new narrative! Having gone through the purgatory of cliometrics and neoinstitutionalism, our accounting historian opted for another solution by taking the effort to actually convert the balance sheets of a year especially rich in sources and to restate the individual items (a Sisyphean task indeed) in line with what seemed correct on the basis of the interview made with the chief accountant, generating fundamental data for the critique of the annual balance sheets as historical sources, but also facilitating, in the long run, some sort of an estimation to support the interpretation of the companies' adjusted balance sheet data.

As far as Hungary in the period leading up to World War I is concerned, archival sources that yield themselves to this sort of analysis are at best limited to the case of the Hungarian

¹ Parker, Lee David: *Historiography for the new millennium: adventures in accounting and management. Accounting History*, 4 (1999) 2. 11-42.

² See Hatvany, Lajos: *Urak és emberek*. Bp. 1963. p. 202.

Commercial Bank of Pest (Pesti Magyar Kereskedelmi Bank).³ However, the business history actors who lived in what was called “the good old times” have long passed away. The oldest broker I have had the chance to interview in the middle of the 1980s was 93 years old at the time. He started his own independent brokerage business in 1917 (the capital being put up by a retired silent partner).⁴ Of course, I found the memoirs of Simon Krausz, “the Napoleon of the Pest stock exchange”, written in the 1930s after he went bankrupt, very useful. Writing in retrospect about his large-scale drive for buying up the shares of Rimamurány-Salgótarján Iron Mill Ltd. (Rimamurányi-Salgótarjáni Vasmű Rt.), this is how he explains his motivations for the famed transaction: “Those of us who could read a balance sheet could easily tell that the iron works of Rimamurány earned significantly more than what they stated, and that their equity to revenue ratio was far better than reported. As a result of their dividend policy, their shares were underpriced in that they were much cheaper than they should have been based on the company’s true equity and revenue figures.”⁵ But even today, and especially back then, who is – who was – possibly in possession of the “true figures” and of the “realistic share prices”? If we compare the historical sources left behind by the iron mill company’s board of directors to the banker’s narrative, we find that even though he may have been able to read the balance sheet of a bank, he still lost the battle for acquiring a majority of the shares.⁶ Is it that he did not quite excel at reading a balance sheet after all? Or is it that leading a successful drive for a buyout takes more knowledge than may be obtained from reading a balance sheet?

Analysing banks’ balance sheets from the era of the Austro-Hungarian Monarchy has long been a staple in researching economic history. Besides the obvious example of the classic works of Eduard März,⁷ we can also mention those of Bernard Michel. He did not only analyse series of active and passive items on the balance sheet, he also tried to uncover the banks’ hidden reserves (“reserves cachées”) among other things.⁸ As far as these hidden reserves are concerned, he identified two main asset types – most importantly, the item “consortium profits”, and the item “securities portfolio” – where he analysed issues related to the undervaluation of these items in the balance sheet.

Beyond the issues discussed above, those involved in the practical analysis of balance sheets have of course for long known about a whole range of other problems that may also fuel one’s scepticism concerning the credibility of the balance sheets that banks put out to the public.⁹ Let me just mention a few examples from the Hungarian experience.

1. It was exactly from 1872 to 1873 that the main fields banks had to use to state their balance sheet data for statistical purposes changed, making it nearly impossible to compare the balance sheet items of the pre-crisis and post-crisis eras at the macroeconomic level.¹⁰

³ Tomka, Béla: Érdek és érdektelenség. A bank-ipar viszony a századforduló Magyarországon 1892-1913. DUP. Debrecen, 1999. 88-122.

⁴ Interview with Pál Tárai (Schnürmacher) (1985)

⁵ Életem. Krausz Simon emlékiratai. Cserépfalvi, Bp. 1937. 120.

⁶ Vass, Gergely: Bankárok és menedzserek. A Rimamurány-Salgótarjáni Vasmű igazgatótanácsa a századelőn (1892-1914) *Korall*, 14. December 2003, 135-158. For information on Simon Krausz’s transaction with Rima shares, see 149-157.

⁷ März, Eduard: Österreichische Industrie- und Bankpolitik in der Zeit Franz Josephs I. Am Beispiel der k. k. priv. Österreichischen Credit-Anstalt für Handel und Gewerbe. Europa Verlag, Wien-Frankfurt-Zürich, 1968.

⁸ Michel, Bernard: Banque & Banquiers en Autriche au Debut du 20e siècle. Paris, 1976. pp. 103-104.

⁹ The business history classics relevant to our topic include, among other, Ronald H. Coase, R.F. Fowler & R.S. Edwards, *Published Balance Sheets as an Aid to Economic Investigation—Some Difficulties*. Accounting Research Association, 1938.; R. H. Parker: *Misleading Accounts? Pitfalls for Historians*. *Business History*, 33 (1991) 4. 1-18.; A. J. Arnold: *Should Historians Trust Late Nineteenth-Century Company Financial Statements?* *Business History*, 38 (1995) 2. 40-54.

¹⁰ Magyar statisztikai évkönyv [“*Hungarian statistical yearbook*”], Bp. 1875. 336-471. Cf. Pólya, Jakab: *A budapesti bankok története az 1867-1894. években*. Bp. 1895. 178-187; Kövér, György: *Das Jahr 1873: Die*

2. However, if we examine banks' balance sheets, we must also mention that when nearly half a century later, in the spring of 1930, an economics journal published a series of articles dedicated to balance sheet analysis under the title "A bankmérlegek tanulságai" ("*Banks' Balance Sheets: The Lessons Learned*") they formulated the following question concerning some of the oddities they identified: "How is it possible, to take just one example, that while banks have seen a substantial increase in the volume of the bank deposits they collected from their clients, and while the total value of the discounted bills of exchange – that is, the bill of exchange portfolio – is significantly in excess of what it was in the previous year, and while there is also an increase in debtors, the overall economy is going through the greatest crisis of all times, agriculture, commerce and industry are having great difficulties in accessing even small loans on the most crushing terms, and we see a shocking proliferation of insolvencies, compulsory agreements, and bankruptcies?" The author does not hesitate to offer a plausible answer: "Now, if we dedicate ourselves to researching what lies at the roots of this apparent contradiction between the banks' balance sheets on the one hand and the general inaccessibility of bank loans on the other, we can find but one explanation: the increase in the discounting of bills, in debtors, and in the portfolio of bills of exchange was not due the loans the banks offered to the economy in general but to the loans they offered to the companies belonging to their own concerns." However, the published balance sheets give us no guidance in setting aside these from all other bills of exchange; neither do they help the analyst identify those non-viable companies that the banks kept on a lifeline merely for prestige or for purely personal reasons, even though these were the companies that "demanded most in terms of loans and soaked up most of the available capital"¹¹.

In the case of the Austro-Hungarian Bank (Osztrák-Magyar Bank), drawing up the balance sheet was not a decentralised local task. As a result, there is hardly any chance that the researcher can put his or her hands on internal working documentation used in the process of preparing the bank's balance sheets. Therefore, in this presentation, instead of making an attempt to analyse information disclosure, I will focus on the practices of obtaining, handling, classifying, storing, and using information. In other words, I will tackle problems related to the input, rather than the output, of information.¹²

The practice of obtaining information

In 1878, at the time of its establishment (or, rather, its re-establishment in a form better suited for the dualist era following the Austro-Hungarian Compromise), the Austro-Hungarian Bank underwent a thorough re-regulation of both its lending system and its credit information system.

The members of the Censur-Comités, or credit assessment bodies, were nominated partly by the board of directors and partly by the local chamber of commerce and industry. The chambers also played an important role in proposing where the bank should set up a primary (Filiale) or secondary (Nebenplatz) branch office. The arguments used in favour of expanding the bank's organisational network were statistical data one may consider to be publicly known: the number of inhabitants living in the relevant city, its importance as a transport hub,

Wirtschaftskrise und die Banken in Ungarn. In: Bankenkrisen in Mitteleuropa im 19. und 20. Jahrhundert. (Hg. Richard Tilly) *Geld und Kapital*, Jahrbuch der Gesellschaft für mitteleuropäische Banken und Sparkassengeschichte. Franz Steiner Verlag, Stuttgart, 1999. 49-69.

¹¹ A bankmérlegek tanulságai. *Gazdasági Világ*, 15 February 1930. p. 17.

¹² For a most recent comprehensive treatment of the questions relating to the historical examination of information systems, see Barjot, Dominique – Schröter, Harm G. Informationsfluss in Organisationen. Theorien zum Informationstransfer und historische Praxis. *Jahrbuch für Wirtschaftsgeschichte*, 56 (2015) 1. 1-19.

its total commercial turnover, and the total capital of all the financial institutions already present in the city were all certainly considered. Through the participation of the chambers, local commercial and banking actors played a decisive role in the systematic assessment of bills of exchange. The representatives of the various sectors were usually elected as members of the Censur-Comités in pairs (two crop traders, two textile traders, two exchange brokers, etc.) to make sure that no party enjoys unilateral advantages. It is quite enlightening to see that in 1878 a number of cities in the Western Hungary (Győr/Raab, Pozsony/Pressburg) proposed their nominees with a view to their religious affiliations (Christian/Jewish), offering a brief description of the proposed personalities along with their names. And while later on no such explicit distinction was made any more, this does not mean that the nominees' religious backgrounds were not still considered in setting up the credit assessment system, albeit the religious aspect may have seemingly disappeared from or view. The eventual proportionality of the members of the local assessment committee clearly proves the point. Nominations in Győr originally included nine Christian and six Jewish members; however, when the committee was finally set up with 11 members, five of them were Jewish (one person declined to accept the nomination).¹³ Soon after, the first list of debtors was drafted, only to provide us with more information on the intricacies characterising the interrelation between the "censors" whose assignment it was to assess bills of exchange. For example, Mórítz Cohn (who eventually became a member of the committee) did not only own a textile retail business (with his worth estimated at 70 thousand forints) but was also a silent partner in the oil mill known as The Heirs of Adolf Kohn with a business share valued at 35 thousand forints. Despite the relatively high ownership ratios, participation in more than one company was considered a problem because the parties maintained mutual giro relations ("gegenseitige Giro-Verbindung") with one another, as a result of which they backed each other's bills of exchange in respect of rather high amounts.¹⁴ This only serves to make it even more obvious that, behind the scenes, the choice of assessors had a strong impact on assessment activities even when the person concerned sat on the committee. Much of the available information was personal in nature, but orality also clearly played a decisive role at this level. And this is about more than just, let's say, news one picks up at cafés; this is about reporting such information merely orally during committee meetings. This was also the mechanism for exercising local control in respect of any centrally obtained information.

The credit limits of the individual branch offices were determined by the High Council of the Austro-Hungarian Bank and then communicated by the Bank's Budapest head office towards the individual branch offices. The individual branch offices then adopted their own decisions on how to distribute their credit limits among the firms operating within their areas. The Austro-Hungarian Bank classified any of its potential debtors (private persons, companies, etc.) into one of ten categories (of course, the dual nature of the category designations clearly shows that these ten categories can in fact be consolidated into only six).¹⁵

¹³ MNL OL Z 1 Meeting of the Board of Directors, Budapest, 29 March 1879, Fasc. 1, pp. 754-755.

¹⁴ MNL OL Z 1 The Győr Branch of the Austro-Hungarian Bank to the Office of the Board of Directors of the Austro-Hungarian Bank. Fasc. 2, pp. 756-758. Győr, 18 August 1879. Adolf Kohn assigned his oil mill to his heirs. For information on Adolf Kohn's oil mill established in 1851, see Szakál, Gyula: *Vállalkozó győri polgárok 1870-1940*. Bp. 2002. p. 129.

¹⁵ Koroknai, Ákos: *Az Osztrák-Magyar Bank és a Magyar Nemzeti Bank hitelinformációs tevékenysége (1878-1948)*. *Levéltári Szemle*, (1977) 2. 289-299. It must be noted that, quite naturally, both the number of the classes and the credit limit threshold values used to define them changed over time.

Table 1

The classification of Budapest firms and private persons in terms of their credit rating

Classes		Credit-limits (forints/Gulden)	Number of clients categorised in the respective credit rating class		
			Joint stock companies	Firms and private persons	Total
I.		More than 500,000	20	30	50
II.	a	300,000 through 500,000	1	19	20
	b	200,000 through 300,000	5	38	43
III.	a	150,000 through 200,000	3	21	24
	b	100,000 through 150,000	3	31	34
IV.	a	70,000 through 100,000	6	48	54
	b	40,000 through 70,000	5	73	78
	c	20,000 through 40,000	9	154	163
V.		10,000 through 20,000	10	176	186
VI.		Less than 10,000 (Censurs Credite)			
		TOTAL	62	590	652

Source: MNL OL Z 1, Fasc. 1, 1879 – No. 258.

As can be seen from how the individual groups were broken down, the classification relied on several criteria, but in effect three main groups were formed. In the case of the top nine classes, a certain automatic mechanism was applied in a pre-determined fashion. However, in the highest category, the party submitting the bill of exchange was the only party to be encumbered at the time of discounting the bill (*Singularbelastung*). In the case of the eight categories ranging between the highest and the lowest ones, all parties signing the bill of exchange (both the party issuing and the party endorsing it) had the relevant credit amount deducted from their available credit limits. In the case of those in the lowest category, the bill assessment committee assessed (“censored”) every single bill of exchange individually.

In the case of companies obligated to publish their accounts (joint stock companies), the situation was fairly simple because, by consulting the *Compass*, the company’s published share capital, stated reserves, and other balance sheet data were easy to come by. Thus, already the very first meeting of the board of directors discussing the issue established that there were merely 20 companies in Budapest that belonged to the top category, and another 52 belonged to Classes 2 through 9. Class 10 debtors, who obviously represented the majority, were not worth discussing until they actually applied for a credit. At the same time, it must have been a cause of concern from the beginning that in each class the majority of the debtors were either one-man companies or private persons, and in fact their weight gradually increased moving down the chart class by class. There was no register of data similar to the *Compass* on one-man companies and private persons.

During the first period of the Austro-Hungarian Bank, which lasted roughly up until the end of the century, we only have comprehensive archival lists of the names of the best debtors – the companies and private persons that belong to the highest category.¹⁶ The most interesting

¹⁶ In previous papers, I analysed the lists of debtors eligible for single encumbrance (*Singularbelastung*) on several occasions from various perspectives: Kövér, György: Budapest „legjobb adósai” (1879-1890). In: *ibid.*: A felhalmozás íve. Bp. 2002. 139-151.; Kövér, György: Budapesti milliomasok a 19. század végén. In: *ibid.*: A pesti City öröksége. Bp. 2012. 245-265. I have summarised the most important connections in a volume on the history of the Austro-Hungarian Bank: Kövér, György / Pogány, Ágnes: *Die binationale Bank einer*

such list is the first one, started in 1879, which does not only state the estimated assets of those listed and the credit limit allocated to them, but also the most recent occasion they actually drew down a credit. In the case of joint stock companies, the companies' assets were estimated on the basis of their published balance sheets (the only question being to what extent the Bank would actually trust those balance sheets). However, one-man companies, let alone private persons, were not required to publish their balance sheet data; in fact, it was in their obvious best interest to guard their business secrets as best as they could. Therefore in these latter cases the Bank had to employ other means of obtaining information. Of course, the Bank had the possibility to ask the relevant firms to provide the necessary information, but it often seemed more reliable if the Bank made an attempt to go out and get the information on its own. In doing so, the Bank probably relied not only on its own organisation, directors, and bill assessors, but also on information obtained from journalists, from – at a later stage – specialised business information agencies, and even private detectives.

When putting together the first lists, the Bank developed a set of principles, making it clear that their debtor classification was not merely based on assessing the value of the debtor's assets (even though, as we have seen it, obtaining such information was no easy task either): "... we have listed only those companies characterised by *impeccable integrity and sufficient fundamentals combined with realistic expectations that they will actually draw down their credit limits*, and whose listing in the best interest of the business"¹⁷ (italics: Gy. K.). In other words: when the quantitative data available on the assets of the debtor are uncertain, the focus should be shifted at least partially to the debtor's integrity and reputation, where personal information, hearsay, and even gossip may be attributed much greater importance than normally.

Under the new system, which was fully consolidated by the eighties, it was the Austro-Hungarian Bank's High Council that – in cooperation with the committee the Bank set up specifically for this purpose – determined the credit limits offered to those one-man companies and corporations that were eligible for single encumbrance (*Singularbelastung*). But the anomalies of the system also quickly became obvious. The credit assessment committee held daily meetings, and the board members – who chaired those meetings – felt "humiliated" by the fact that "it was exactly the best companies where they had no information about the companies' upper credit threshold despite the fact that this is something the senior executive of the head office must at all times be aware of in order to prevent any cases of credit limit abuse". In other words, how much credit the debtors – and we are talking about those eligible for single encumbrance with a credit limit of more than 600,000 forints by that time – had actually drawn down in total was a secret even to the members of the board of directors. For this very reason, the board of directors in Budapest submitted a proposal to the High Council of the Austro-Hungarian Bank asking that the board members be provided with information, "for their own discrete use", on the amount of the actual credits granted.¹⁸ This meant that while the Bank's head office tried to make full use of all the information obtained by the committees, it did not trust them enough to provide them with everything through the vertical flow of information that was available for adopting a good decision. This practice was indeed another motivation for the members of the assessment committee to rely on information obtained from sources outside the Bank's own organisation.

multinationalen Monarchie. Die Österreichisch-Ungarische Bank (1878-1922). Franz Steiner Verlag, Stuttgart, 2002. 105-122. On pages 182 through 184, I provided a table reflecting the structure of the list. In 1895, there were 78 firms and private persons on the list of those eligible for single encumbrance (*Singularbelastung*). See Kövér, 2002. 143.

¹⁷ MNL OL Z 1 Meeting of the Board of Directors, Budapest, 09 October 1879, Fasc. 2, p. 1389.

¹⁸ MNL OL Z 1 Meeting of the Board of Directors, Budapest, 08 October 1882, Fasc. 9, pp. 373-374. Motion put forward by Ferenc Heinrich

Figure 1

Comments on Debtors' List No X (1888)

Anmerkungen der G. L.
Kredit-Liste.

Laufende Nr.	Firma	Wohnort	Vermögen	Geschäft	Letzte Belastung	Verantragter Personal-Kredit	Bemerkung	Vermeintlicher Personal-Kredit
170	Deutscher M. Carlisle	Kreuz					Commerzial	0
128	Carl Brühl & Co	"	100	"	-	20	min	80
598	Gebr. Kimmwaber	Frankfurt	300	Bank	-	100	min (2 Launen)	150
1099	Carl Kuffner & Co	"	150	Bank	21	500	?	700
94	Joh. Kuchler & Sohn	"	5/600	Bank	109	250	-150 200	250
447	Dr. Hoffmann	"	4/500	Bank	-	200	-100 150	100
146	Gebrüder Kimmwaber	"	3/400	Bank	-	50	+30 30	30
175	Gebrüder Kimmwaber & Co	"	2/300	Bank	33	150	+50 100	150
203	Maximilian Egger	"	(20) 400	Bank	6	100	+40 60	60
201	Emil v. Thun & Elek	"	400	Bank	-		Aktionär	0
900	Schlesinger & Polakowicz	Frankfurt	300	Bank	56	100	+20 -80	80
1100	S. Wolfner	Köln	100	Bank	-	50	+20	30
274	Julius Feldbach	"	250	Bank	-	70	+30	45
(52)	Carl Nilsen	"	70	Bank	6	30	-10	30
952	F. W. Schweiger	"	100	Bank	13	40	-20	40
953	Julius Schweiger	"	400	Bank	6	150	-50	150
1097	J. Wolfinger	"	100	Bank	-	30	-40	30
1098	J. Wolfinger	"	60	Bank	-	15		15
702	Carl Mosspark	"	150	Bank	-	20		0
904	Carl Schlesinger & Polakowicz	"	40	Bank	-	15		0
1008	Carl Schlesinger & Polakowicz	"	60	Bank	-	15		0
899	Ferd. Schlesinger	"	1000	Bank	9	100		100
187	Carl Jordan	"	600	Bank	-	30		30
286	Simon Piltzer	"	100	Bank	-	20		20
1007	Justus Lammert	"	200	Bank	-	100		0
861	Heinr. Lammert	"	200	Bank	-	100		100
600	Josef Kung & Co	"	300	Bank	-	150		150
601	Kung & Künzler	"	300	Bank	-	150		150
706	Josef Müller	"	300	Bank	-	150		150
<u>Lebensgesellschaften:</u>								
77	Neustifter Zögler & Kalk	"	361	Bank	21	60		60
82	Becker Buchdruckerei	"	276	Bank	-	150		150
56	Heinr. Kimmwaber	"	103	Bank	4	30		20
74	Maximilian Egger	"	55	Bank	-	30		20
65	Maximilian Egger	"	257	Bank	-	100		100
85	Josef Kung & Co	"	5875	Bank	780	4000		3000
115	Josef Kung & Co	"	10.000	Bank	650	4000		3000

Unfortunately, we have no surviving lists of debtor names in Classes 2 through 9, and where we do have some information on how these debtors were assessed, such information is limited to those whose position changed over time for one reason or another. In a large number of cases, the minutes make reference to the debtor's serial number in the debtors' list, which was available at the time but has since been lost. In other words, some of the debtors who moved from one class to another cannot be identified by name; only the reasons for their reclassification can be studied anonymously. The board of directors used the following system in discussing the individual cases: they started with new proposals submitted for credit assessment; then they moved on to proposals for increasing or decreasing the credit limits of existing debtors; and finally, they discussed proposals for revoking the credit limits of certain debtors. This latter category included debtors who lost their Class 1 eligibility for single encumbrance, and debtors who lost their eligibility for standardised credits and whose credit applications from then on had to be assessed or "censored" on a case by case basis.

In the case of new debtors classified for the first time, the credit assessment committee adopted its decisions on the basis of unusually thorough, oftentimes deeply personal information. In the case of the Sons of Ármin Herz, for example, the institution proposed a credit limit of 100,000 forints, but the committee reduced this to 60,000 forints because the debtor's asset estimation included "the wife of one of the partners" and therefore the estimate "seemed unreasonably high". On the very same occasion, in the case of a debtor called Viktor Jordán, the committee approved a credit limit of only 15,000 forints instead of the 20,000 forints originally proposed because the debtor's "business operations were dependent on financing provided by his father".¹⁹

Extraordinarily stringent criteria were also used in the case of existing debtors already classified with a certain credit limit whenever the Budapest head office proposed that their credit limit be increased. In the case of A. Holzspach & Sons, the committee refused to increase the credit limit, quoting the following two reasons: they believed that the increase in the company's stated assets were due to "overvaluing the company's quarries, lime kilns and brick factories in their books", and that the company's "debts on bills of exchange were mostly based on its efforts to obtain cash financing".²⁰ More simply put, the committee was suspicious rather than positive about the overvaluation of certain balance sheet items and the amounts of unsecured debt on the company's bills of exchange.

Those opting for sectors other than industry or trade were not much better off either. "Nándor Schweiger is mostly involved in agricultural activities, wherefore, in accordance with the relevant rules, he has been granted a more modest increase in his credit limit than originally proposed." At the same time, József Schweiger, only three items down the list, was "known to have rented out his landed property to his son and [had] probably retired, wherefore he has also been approved for only a minor increase in his credit limit".²¹

Information obtained about the lack of a company's solid operation and financial standing was among the most important criteria. It was on this basis that, among others, Károly Jakab Kohner, a proprietor of the otherwise well-renowned company Henrik Kohner & Siblings was struck from the debtors' list because "he has discontinued his commercial business activities and has for quite some time been only involved in stock exchange speculation".²²

¹⁹ MNL OL Z 1 Meeting of the Board of Directors, Budapest, 29 May 1889, Fasc. 17, p. 113.

²⁰ MNL OL Z 1 Meeting of the Board of Directors, Budapest, 01 June 1886, Fasc. 14, p. 789.

²¹ MNL OL Z 1 Meeting of the Board of Directors, Budapest, 188?, Fasc. 10, p. 47.

²² MNL OL Z 1 Meeting of the Board of Directors, Budapest, 10 June 1882, Fasc. 8, p. 925. Károly Jakab Kohner was born in Neumark in 1850 and took over his father's firm in 1873. At the time, his father, who "was forced to permanently retire from his honourable trade as a merchant" because of "his advanced age and frail bodily health", was hoping that his son, thanks to "his excellent qualities and practical training and qualifications", would "bolster the reputation of the trading house that... he himself had started and directed for

To what extent the size of a debtor's assets was not the only consideration when reducing the debtor's credit limit is clearly reflected in the case of Strasser & König, one of the largest grain merchants in Pest. With a view to the fact that one of the partners, Alajos Strasser, passed away and "the company's circumstances may have possibly become less favourable", the Budapest head office proposed that the Bank's High Council revoke the firm's eligibility for single encumbrance. The board of directors in Budapest did not object to the proposal either. However, the board of directors unanimously refused to accept the proposal that the firm's 500,000 forint credit limit be also reduced to 300,000 forints as, "thanks to the proprietors, the company's business was in good standing," and instead proposed that "the 500,000 forint credit limit should be maintained without any limitations *for the time being*"²³ (italics in the original). What attracts our attention at this point is not so much the tone of uncertainty with which the original official proposal was worded ("circumstances may have possibly become less favourable") but the definite position assumed by the assessment committee on the basis of its confirmed local knowledge ("the company's business was in good standing").

What was a strength in obtaining local information was in turn a limitation in the international context. As far as Heller A. & Co., a company with business premises in Prague as well as in New York was concerned, "only rather unreliable data are available", and because Adolf Heller lived in Prague "and his asset situation was little known", plus his Pest-based business partner and representative had no assets, the company was "only approved for a moderate credit limit".²⁴

Unfortunately, those applicants in the lowest category of debtors grouped in Class 10 remain completely under the radar. These applicants left no trace behind in the minutes whatsoever.

The system used at the turn of the century

From the turn of the century, the Bank migrated to recording the individual companies on separate credit files. No pages survive from the initial period of this new credit information system. However, from the early 20th century on, this source allows us to see even the smallest clients. We know a whole range of companies with their data recorded at various points in time, always in comparison to their most recent data. On the one hand, this new system may be considered a step towards strengthening the Bank's systematic written records; on the other hand, it is obvious that changes in the companies' data were not updated on a continuous basis at all. It is enlightening to see how modifications were annotated on the previous file in draft and were only consolidated into a unified updated copy when there were substantial changes either in the text or in the numbers.

Figure 2

The credit information file of Henrik Haggemacher (1899-1912)

nearly half a century". BFL Cégbírószág, Cg 1876/447. A statement made by Henrik Kohner, 26 December 1873. The company was officially struck from the register of companies on 14 April 1883. Ibid.

²³ MNL OL Z 1 Meeting of the Board of Directors, Budapest, 07 August 1888, Fasc. 16, pp. 208-210. Alajos Strasser, who was the vice president of the Budapest Chamber of Commerce and Trade, died in Polgárdi on 30 June 1888. BFL Cégbírószág, Cg 1876/205. Cf. Kempelen, 1939. III. pp. 96-97. The published date of death in Kempelen is incorrect!

²⁴ MNL OL Z 1 Meeting of the Board of Directors, Budapest, 188, Fasc. 13, p. 140.

Haggenmacher <i>Henrik</i>		Budapest	prot. 29/5 1896 K. v. 35
Herrn Haggenmacher		T. Széchenyi St. 11	lt. 9/93
Name des Chefs, der öffentlichen Gesellschafter und sonstigen Geschäftstheilhaber	<i>Henrik Haggenmacher</i> <i>Robert Haggenmacher 19/90</i> <i>Carl Arpad Haggenmacher</i>		
Hievon ist (sind) zur Vertretung oder Firmaführung berechtigt	<i>Jeder selbstständig</i> Prokuristen <i>Ferdinand Satogh 07/97</i> <i>...</i>		
I N F O R M A T I O N vom <i>11. März 99</i> <i>April 1912</i>			
Geschäft	<i>Dampfmühlens.</i>		
1 Vermögensverhältnisse	<i>immer pflicht stark Vermögner der Firmen auf 8-10 Millionen Forint</i>		
2 Geschäftsbetrieb	<i>substantiell gut (sich betriebs) Forme einige Millionen in Effekten</i>		
3 Charakter	<i>stift pflicht und allgemein in geachtet</i>		
4 Kreditfähigkeit	<i>für jeden vorkommenden Betrag gut</i>		
5 Bankkredit-Benützung			
6 Bemessener Kredit	<i>S. in der 4000/1000</i> <i>v. K. 2000/1000</i>		

Mitgetheilt durch *2-1* DASZAGOS LEVÉLTÁR Z szekció *34*

Hailing from Switzerland and doing business in the milling industry, Henrik Haggenmacher was considered one of the best debtors. His credit file No. III survives; originally, it dates back to March 1899. Changes were initially annotated on the earlier versions of the file, but in the case of Haggenmacher this was not necessary for over a decade. The firm was only reassessed in April 1912, but no substantial changes took place, except for the fact that the amounts originally stated in forints were restated in Austro-Hungarian crowns, the exchange rate being 1 forint per 2 crowns. In actual fact, what this reflects is that Haggenmacher's estimated worth did not change between 1899 and 1912 (8 to 10 million forints or 16 to 20 million crowns). Neither was the composition of his assets updated in 1912 when the Bank noted that in addition to his steam mills, his assets also comprised "houses and construction lots of great value, as well as a portfolio of securities worth a few millions".²⁵ The section dedicated to the nature or character of the company also remained unchanged, stating that the company was "most reliable (»solid«) and generally well respected". The wording of the company's credit rating is also enlightening: "good for any conceivable amount". It is no surprise then that the firm was eligible for single encumbrance, which was marked using a calligraphically drawn red "S" sign on the file. Furthermore, it can also be established that in the case of its best clients, the Bank did not make much of an effort to review changes in the assets of the company over time unless the company came close to potentially being removed from the top category.²⁶

Earlier on we saw that the 1888 death of Alajos Strasser, the head of Strasser & König, led to the firm losing its eligibility for single encumbrance. The business logic behind the decision to revoke the firm's preferential treatment was that the management of the firm was now in

²⁵ MNL OL Z 1, Fasc. 53, pp. 34-35.

²⁶ At this point, we wish to note that already in the 1880s the estimates concerning Haggenmacher's assets give no figures whatsoever; they only state that he is a "multimillionaire". The first actual figures only appear in 1886 and 1888, stating that his assumed total worth is 7 million forints. See Kövér, 2002. 146.

the hands of several proprietors (including the widow and the youngest male child who was still a minor). Since most of Alajos Strasser's assets comprised of movable property in the total value of over half a million forints (the widow having inherited half of the real estate as a surviving spouse), this had an obvious negative effect on the balance of the firm's assets, causing uncertainties and reducing its bottom line.²⁷ The first surviving file of the firm is Credit Information File No XI dating back to May 1913. While it shows that the firm's eligibility for single encumbrance was not reinstated, its credit limit was maintained at, or over time increased back to, the original level of half a million forints (or 1,000,000 crowns). The proprietors of the firm (who also had a warehouse in Vienna) were, quite naturally, characterised as "highly respectable and trustworthy persons".²⁸

Figure 3

The credit information file of the firm Strasser & König (1913)

<i>Strasser & König</i> <i>Strasser & König</i>		Haupt- Zweig- Niederlassung	Budapest. Wien
Firmainhaber, öffentliche Gesellschafter, Kommanditisten, Geschäftsführer	<i>Alfred Strasser</i> <i>Alfred Oberholz</i> 59/915 <i>W. Himmel</i> " <i>Commersial</i> " <i>Josef</i> " Sohn des Alfred Strasser	Prot. 6/3 1876 H. W. 12. 54/1911.	
Firmaführer und Art der Firmazeichnung	<i>ganz selbstständig</i>	Prokuristen: <i>Josef Oberholz</i>	
INFORMATION der Bankanstalt		vom <i>Mai 1913.</i>	
Geschäft:	<i>Spezialgeschäft in Vermögensverwaltung</i>		
1 Vermögens- verhältnisse	<i>Grundbesitz vom 17.1912, fast im Ganzen, nebst dazu bis 1915 konstantlich verbundenen Forderungen des Rudolph Rudolf 8 Millionen im Forderungs; außerdem sind von Alfred & Bank Strasser an Immobilien & Wertpapieren ca. 6.600.000 zur Verfügung</i>		
2 Geschäfts- betrieb	<i>alle Formen, welche zu dem selben das Geschäft zum Platz zählt.</i>		
3 Charakter	<i>zufällig sind selbstverpflichtung & vertrauenswürdig Leute</i>		
4 Kredit- fähigkeit	<i>ganz selbstständig Kredit</i> Z A "S"		
5 Bankkredit- benützung	<i>günstig bei der Bank; außerdem zeitweilig mit Kredit in Auftrag.</i>		
6 Bemessener Kredit	<i>1.000.000</i>		

Adopting a wider perspective and looking briefly at the interwar period ("in the very long run") one might mention that, according to the company's credit information file carried and numbered continuously by the National Bank of Hungary, Strasser & König was once again granted the preferential right to single encumbrance sometime during the twenties, which it enjoyed until it was forced to declare insolvency on 10 April 1931.²⁹

²⁷ BFL Cégbíróság, Cg 1876/205.

²⁸ MNL OL Z 1 O-MB, Fasc. 54, p. 339. May 1913. The file records that one of Alajos's sons, Rudolf is not a member of the enterprise any longer, but that he has a business share of 8 million crowns in it. However, two other brothers, Alfred and Imre, are active owners and executives of the firm and are shareholders in the firm and owners of its assets with 1.6 million crowns in real estate and securities. Ibid.

²⁹ MNL OL Z 19 MNB 12. d. It may be worth mentioning that the very last credit information obtained right before the company's liquidation (XVIII. February 1930) gave an indication of the company's imminent collapse, but this was limited to proposing (and in fact achieving) that the company's credit limit be reduced to half of its original level. Ibid.

Reviewing the system between the two world wars is beyond our scope. However, it may be worth mentioning that several attempts have already been made to exploit this corpus of sources. Reviewing the credit information records of the rural branch offices is especially worthwhile. Like earlier, efforts were made to keep the records up to date as far as the credibility of the balance sheets was concerned. To take the example of Vidoni Brothers of Debrecen, a firm hailing from Italy and establishing a factory just outside Vienna in 1926 that later played a major role in Austrian salami manufacturing, the records state that “in its balance sheet as of 31 December 1936, the firm, because of tax considerations, only stated a profit of 10,000 pengő, while in actual reality the business generates far better results”³⁰.

Now that we talk about the economic situation characterising the thirties, it may be a good idea to go back the balance sheet analyses published by the economics journal we quoted in our introduction. Based on contradicting trends in the published balance sheets, the author assumed that the only plausible explanation was that banks were primarily financing companies in whom they themselves had an interest. However, this could not be demonstrated on the basis of the banks’ published balance sheet data. In the autumn of 1935, the rather well-informed credit information file carried by the National Bank of Hungary on Deutsch Ig. & Son, a firm in private banking owned by one of the largest family of entrepreneurs in the 20th century, made note of very similar phenomena. “As a result of the difficulties he experienced over the past several years, he has retired from the banking business, dedicating himself entirely to managing the affairs and financial operations of his companies and of the estates of the companies’ owners.”³¹ A few years later the bank was also aware of the fact that tensions arose in the management of the family business between Dr. Albert Hirsch (Irén Hatvany’s husband) and Baron Endre Hatvany, noting that “incessant rivalry... both within the company and within the family” cast a shadow “especially over the assessment of the company’s perspectives going forward”.³² In retrospect, we know that the clouds that really cast a shadow over the company’s future were in fact darker and more sinister: the anti-Jewish laws, the world war, and nationalisation.

Summary

In our brief overview, we have tried to offer an insight into the credit information system of the Austro-Hungarian Bank and into the practice of extending loans based on such information. The information on record in the system did not only serve as the starting point for the Bank when considering the extension of a loan to the relevant party; the Bank may have also relied upon data of this type in its valuation process while drawing up the annual balance sheet.

We have reviewed two major eras of the credit information system. In the first era, debtor classification relied primarily on oral information, while in the second era we see a substantial move towards the use of written records kept in a file system. The Bank’s policies and general terms concerning the extension of loans were shaped in a process characterised by a two-way, vertical flow of information between the High Council, the Bank’s Budapest head office, and the boards of directors of the individual branch offices and the local Censur-Comités through controlling a range of “harder” and “softer” parameters.

³⁰ Quoted by Timár, Lajos: Vidéki városalakók. Debrecen társadalma 1920-1944. Magvető, Bp. 1993. p. 93.

³¹ MNL OL Z 19 MNB 4. d. XII. September 1935.

³² Ibid. XV. July 1940.