

## **Personal Networks in the Austrian Corporate Economy: Function, Structure and Development, 1900 - 1938<sup>1</sup>**

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The development of the relationships between (universal) banks and industry in the Cisleithanian (or Austrian) half of the late Habsburg Monarchy and in the - after 1918 newly established - First Republic of Austria has been in the focus of many publications and research projects. Most of those dealt with the question whether this 'intimate liaison' furthered or hindered the process of industrialization, whether banks can be regarded as pioneers in the field of industrial promotion and thus fulfilled a 'missionary' role or whether they only responded to already existing trends towards sustained modern economic growth. One institutional feature of this bank-industry liaison was the delegation of bank representatives on the boards of industrial joint-stock companies (and to a far less extent of industrialists on bank boards) which in individual cases led to an accumulation of forty and more board seats by mainly bank managers.<sup>2</sup> The following remarks will concentrate on the personal level, the actors in the bank-industry networks. Who were these people, where did they come from, where and when did they start their careers, which position did they own in society? Which factors were of decisive influence for the changes within the network?

The study is divided in three chapters following important breaks or at least shifts in the bank-industry relationships in the time period investigated: It starts with 1.) the period of the banks' increased involvement and significance in the industrial business, dating from 1895 to 1918. The next chapter deals 2.) with the changed circumstances and frame conditions, politically as

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<sup>1</sup> This article has a long Berkeley history. Its beginnings go back to a paper given at a conference at the University of California in Berkeley in April 1997 on the general topic 'Finance and the making of the modern capitalist world'. Since then I had many possibilities to discuss my research results and reflections with banking historians all over the world, one of them Gerald D. Feldman, who had got more and more involved into Austrian banking history during the last decade especially because of his investigations on the history of Austrian banks during the National Socialist period. He died much too early in October 2007. This article is dedicated to him. My contact to Prof. Feldman inspired me to apply for an ERP scholarship for Berkeley where Prof. Feldman teaches to intensify our scientific contact. Long discussions resulted in this article. It is not only Gerry to thank for his ideas and judgements, both, his wife Norma and him, I'd also like to thank for their warm hospitality during my stay in Berkeley. Last, but not least I would like to thank those who enabled my research stay, the ERP funds.

<sup>2</sup> In more detail see Eigner (1997).

economically, of the 1920s, a period of challenge in many respects. It finally concentrates 3.) on the development in the 1930s, which can be characterized as the period of retreat - retreat from international holdings and participations as well as from the 'system of finance capital' -, and ends with an outlook on the development of bank-industry networks in Austria after the 'Anschluss' of 1938.

### **Spinning the net(s): The evolution of a bank-oriented system, 1900 - 1918**

A first real boom period of the Monarchy's economy and of Austrian banks as promoters of industrial business, the so-called '*Gründerzeit*' (1867-1873), had ended with the crash of the Vienna stock exchange in 1873, as much of the economic boom was due to speculation. This period is now often interpreted as a 'false start' of an industrial breakthrough and led to a cautious and risk-avoiding behaviour of both banks and public which lasted for more than twenty years. It was from 1895 onwards, so in the last two decades before the First World War, that the Austrian or rather Viennese universal banks (the most important banks were situated in Vienna, although Budapest and Prague also developed to bigger bank places) – though remaining cautious – began or returned to finance industry, founded joint-stock companies or more frequently transformed privately-owned enterprises into public companies and organized their share issues. To a greater extent than elsewhere, banks furthered monopolistic organizations, were active in industrial concentration by initiating mergers, and encouraged cartelization by taking over marketing functions for their client firms in the form of sales departments or acting as cartel bureaux.<sup>3</sup> Nowadays, the close relationships between universal banks and industrial companies are not only widely regarded as a distinctive feature of the structure of the Austrian economy, some historians, one could say a growing number, state that the symbiosis of banking and industry was to be found in its purest form in the Habsburg Monarchy/Austria, even purer than in Germany, the country formerly predominantly mentioned in this context. Although the general trend of research – after a long period of overestimation of bank power, perhaps influenced by the works of *Hilferding* and *Gerschenkron* – stresses the limits of banking influence, it is 'not inconceivable that banks had a greater influence in the economies of the smaller European countries'<sup>4</sup>. This was certainly true for

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<sup>3</sup> See Teichova (1992: 23).

<sup>4</sup> Cassis (1992: 5).

Austria after 1918, but also for the late Habsburg Monarchy which was not small at all but economically at least relatively backward.

What was to be observed in these pre-war decades was the evolution of a bank-oriented system with Viennese banks in the central positions of the bank-industry networks. Within such a pattern ‘the bank boards constitute forums in which major capitalist interests allied to that bank come together and are able to establish a limited degree of coordination in the behavior of their base companies and, perhaps more importantly, to exercise a degree of influence over subordinate enterprises’<sup>5</sup>. But it is important to stress that the central position of the banks was not caused by their greed of power or some kind of missionary eager, but due to a weakness of the Austrian capital market, which made it difficult to sell shares to the public.<sup>6</sup> An Austrian industrial company could not issue securities on the stock market without the intermediation of one of the universal banks. The banks were indirectly forced to replace the functions of a capital market, to compensate for its limits. By taking over large parcels of shares waiting for a future possibility to sell them (a wish that often did not come true), the banks could be more and more characterized as holding companies with huge diversified industrial combines covering mainly the Cisleithanian half of the monarchy with a regional emphasis on the industrialized areas of later Austria and especially Czechoslovakia.<sup>7</sup> The establishment of industrial concerns was accompanied by the before mentioned delegation of bank representatives on industrial boards (=interlocking directorates) as almost an institutional feature of at least bigger business transactions.

Therefore the bank boards can be described as central points within the bank-industry networks where information on individual enterprises, on whole branches, on business in general is accumulated.<sup>8</sup> The roles and activities performed by interlocking directors are manifold and have to be seen in the context of changing conditions and necessities for both banks and firms, ranging between the poles ‘information channels’ and ‘instruments of power and control’. The function of interlocking directors, especially of those with a multitude of links, within the bank-industry-

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<sup>5</sup> Scott (1987: 212). It is important to stress that the direction of the relationship ‘was not one way’, that also ‘industrialists accommodated their interests with those of the banks by becoming directors of banks’, Scott, *op. cit.*, 217.

<sup>6</sup> To this connection, the substantial role of the banks is seen as institutional response to relatively underdeveloped financial markets, see Kocka (1978: 565-6).

<sup>7</sup> In the Transleithanian (or Hungarian) half of the monarchy a network of affiliated Hungarian banks (e. g. Ungarische Allgemeine Creditbank affiliated with the Credit-Anstalt; Ungarische Escompte- und Wechsler-Bank affiliated with the Länderbank), seldom one of branches (important exceptions were the Budapest branches of the Anglo-Oesterreichische Bank and the Wiener Bankverein), helped the Viennese banks to secure their influence.

<sup>8</sup> See Scott (1987: 232). ‘In addition to the role in the mobilization of capital which they exercise as financial intermediaries, banks accumulate and mobilize business information.’

networks is that of an ‘information trader’. It is this relatively small segment of board members which is focussed in this study. Bankers or industrialists with more than 15 seats on industrial boards were defined as ‘big linkers’ within the bank-industry networks.<sup>9</sup> These big linkers were mainly found in the rows of the banks’ managing boards (=Vorstand or Direktion), only a few were found among the members of the boards of directors (=Verwaltungsrat). Interlocking directorates provided the bank with information about a company’s soundness and are therefore to be seen as risk-avoiding and uncertainty-reducing instrument. Board representation thus enabled banks (at least potentially) to improve information flows within the economy, creating a better allocation of investment funds. In this respect, interlocking directorates are a way of dealing with the problems of asymmetric information which are inevitable when investment has to be financed by external sources of funds.

Turning to the other pole, where personal links between banks and industry have often been interpreted as an instrument used by the banks to exert power and/or control, it is important to stress that interlocking directorships have to be seen in the context with some other potential ‘power tools’ of the banks. Credit connections and participations (here it should be differentiated between voluntary and involuntary bank involvements) have to be mentioned here. First results indicate that there was a high correlation in Austria between bank-industry personal links and financial relationships in the forms of either direct ownership links or – more often – longstanding credit connections. Furthermore, banks controlled equity voting rights in joint-stock companies at shareholder general meetings, either through owning shares themselves or through exercising proxy votes for shareholders who had deposited shares with them. This instrument increased their influence to a big extent.

The framework for this study is an empirical analysis of the interlocking directorates of the board members of the ten largest Viennese universal banks<sup>10</sup> with industrial joint-stock companies, which was also used as a method of approximation for the banks’ industrial spheres of influence, as sources on the degree of participation or indebtedness are scarce.<sup>11</sup> As points of departure I took the

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<sup>9</sup> See Wixforth/Ziegler (1995: 252).

<sup>10</sup> These were the Anglo-Oesterreichische Bank (thereafter AB), the Bodencredit-Anstalt (BCA), the Credit-Anstalt (CA), the Depositenbank (DB), the Länderbank (LB), the Mercurbank (MB), the Niederösterreichische Escompte-Gesellschaft (NEG), respectively after 1934 its successor organization, the Österreichische Industriekredit-AG (ÖIKAG), the Union-Bank (UB), the Verkehrsbank (VB) and the Wiener Bankverein (WBV).

<sup>11</sup> The group of companies where either three bank representatives of a single bank were found on the board or where a bank representative held a leading position (president of the board of directors, chairman or general manager) were defined as ‘concern’ (Konzern) companies.

bench years 1908 (as a year after a first period of the banks' increased engagement with the industrial business) and 1917 (as the last full year of the Habsburg Monarchy's existence)<sup>12</sup>. The comparison (see figure 1 in the appendix) mirrors the banks' efforts towards an intensification of their industrial business. In 1908 the board members of the ten banks had 599 interlocking directorships with 307 industrial joint-stock companies, in 126 companies their positions were defined as leading.<sup>13</sup> Six among the ten banks investigated (in decreasing order *CA*, *NEG*, *WBV*, *LB*, *AB* and *BCA*) had already begun to occupy strategic positions in certain industries or had set local priorities, signs of a business policy of specialisation which should not be overestimated as the banks were represented in almost all branches of industry. An analysis by industry reveals that engineering and metal-working closely followed by mining and metallurgy were the banks' main fields of activity - in an international comparison the third position of the textile industry, a consumer goods industry, was most surprising. Until 1917 the number of personal links had almost doubled to 1.195 interlocking directorates. With regard to sectors of industry engineering and metal-working were now followed by the sugar industry, the textile industry and one of the growth industries of the early 20th century, the chemical industry. The board members of the *Credit-Anstalt* united one fifth of all links, but all of the ten banks investigated could be now characterized by substantial industrial concerns.

The focus of analysis will be more concerned with the actors (bankers and industrialists) and the composition and structure of bank-industry-networks and will high-light some of the aspects forming and influencing their interrelations.

#### *Institutionalized networks and private networks*

What can be said about the typical banker of a Viennese bank and his professional formation?<sup>14</sup> Most of the bankers were immigrants coming from Bohemia, Silesia or Moravia, so the 'typical' Viennese banker was not born in Vienna. A high percentage among the bank managers was Jewish. Many bankers had started their professional careers very early (before the age of 20), very often they remained in a bank for decades. To be instructed in a private bank was considered as very useful, as a future banker was then confronted with all possible kinds of bank business and could thus avoid

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<sup>12</sup> The war was not a discontinuity for the process of concentration within either industrial or financial capital. Rather, the Great War accelerated such concentration.

<sup>13</sup> First preliminary results differing from those mentioned here were published in Eigner (1994). Differences are due to inconsistencies in the information collected by the source 'Compass' and to different methods of counting.

early specialisation. The normal career pattern often included a longer stay abroad in a foreign (private) bank, mainly in Germany, France or England. Banks before 1918 were often ‘personified’ through their presidents (often being main shareholders themselves), to a less extent through their leading managers. The patterns found differed widely among the banks. In some banks the top position was taken in by high aristocrats – as it seems mainly for reasons of representation and to secure the reputation of a bank. In the *Länderbank* Duke *Montecuccoli-Laderchi* acted as Governor, Duke *Dubsky* served as president of the *Union-Bank*. In other banks industrialists or bankers were found on top of the boards.

Let us now introduce some personalities of Austria’s banking scene and look at their career patterns. *Max Ritter von Gomperz*, president of the *Credit-Anstalt*, was descended from a dynasty of Moravian wholesalers, private bankers and textile industrialists. His family, living in Brno, belonged to the main shareholders of the *CA*. *Max Gomperz* had moved to Vienna in 1858 and entered the *Credit-Anstalt*-board in 1860. In 1895 he was elected as president, in 1913 he died as honorary president of the *CA* at the age of 91. *Gomperz* was married to *Luise Auspitz*, the daughter of the head of the famous Austrian private bank *Auspitz*. He was regarded as symbol of both the economic upswing of Austria and the bank and personified the tradition of Austria’s most important universal bank. *Bernhard Popper* was born in Hungary and had entered the *Wiener Bankverein* in 1875 and stayed in the bank for 57 years until his death in 1931. *Eugen Minkus* entered the board of the *Union-Bank* at its foundation in 1870, at the age of 30 he became one of the executive managers, his career ended with his resignation in 1922.<sup>15</sup> A typical career pattern showed *Karl Morawitz*, President of the *Anglo-Oesterreichische Bank*. He passed a middle school and a business school, after that he worked for two private bank houses in Prague and Dresden. In 1860 he went to Paris and started working as correspondent for the French *Banque de Paris et des Pays Bas*, later he changed to the *Banque Ottomane*. He then became secretary of Baron *Moritz Hirsch*, one of the leading railway financiers and financial executive of the *Oriental Railways*. Soon *Morawitz* was known as an excellent expert of the Turkish economy. In 1885 he returned to Vienna, in 1893 he became a board member of the *Anglo-Oesterreichische Bank*. In 1906 he was elected to president, his take-over was regarded as a ‘palace revolution’ and symbolized the bank’s new attitude towards the industrial business.

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<sup>14</sup> The following remarks are - besides own research - mainly based on Michel (1976: chapter 11, pp. 309-42).

<sup>15</sup> To the careers of Minkus and Morawitz, see Fessen (1974: 110-115).

The bank boards before 1918 were meeting points of (high) aristocrats (princes, dukes and counts), of tycoons (sugar and coal barons) and private bankers, who often distributed their family members among the Viennese banks like the *Schoellers*, having three different representatives in three banks. These private bankers, traders or industrialists had often accumulated their fortunes over generations, so their families had become more and more influential and well-known in society, some developing towards dynasties – some of them still existing today. Sons (more seldom other family members) – if they did not break under the high expectations<sup>16</sup> – followed their fathers on the boards (e.g. *Gomperz*, *Feilchenfeld*, *Pollack-Parnegg*, *Landesberger*). As the bank boards were meetings of the shareholders or their representatives, this pattern was a normal method of securing ownership continuity. The significance of these families and especially of private bankers with regard to joint-stock banks was extraordinarily high. Besides the ‘Rothschild-banks’ *Credit-Anstalt* and to a less extent *Bodencredit-Anstalt*, the *Verkehrsbank* was known as being dominated by the *Schoellers*, the same was true for the relationship between the banking house *Reitzes* and the *Depositenbank*. The *Niederösterreichische Escompte-Gesellschaft* enjoyed the reputation as bank of the iron-industrialist *Karl Wittgenstein*, this was the only case found where one of the largest Viennese banks was considered by contemporaries to be controlled by an industrialist.

The intensification of the banks’ industrial business was mirrored on the boards by an increasing number of industrial experts, representing a new type of bank manager and bank. Their engagements in some cases even symbolized a bank’s final break with its traditional conservative business habits (e. g. the appointment of *Julius Deutsch* on the board of the *Bodencredit-Anstalt*)<sup>17</sup>. Another group of board members consisted of former executives or managers of the bank, their board representation – if not due to capital participation – can be interpreted as a reward for their former loyalty. At least, members of the high state bureaucracy and former ministers should be mentioned. Each segment fulfilled a specific function, if we think of the aristocrats mainly that of representation in connection with the status of a bank (or the aristocrats represented on the board were main customers with longstanding business connections to a bank), the group of state officials being responsible for the linking of political and economic interests, and so on.

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<sup>16</sup> E. g., three among the five sons of the Austrian iron-industrialist Karl Wittgenstein committed suicide. The other sons did not want to follow their father, either. Paul W. became a prominent pianist, Ludwig W. one of the most famous philosophers of the 20<sup>th</sup> century.

<sup>17</sup> Kola (1922: 151).

With regard to the social structure of Austria-Hungary the differentiation between a ‘first society’ (consisting of aristocrats, the highest bureaucrats and politicians and of a few influential families like the *Schoellers* or *Rothschilds*) and a ‘second society’ (consisting mainly of members of the economic and intellectual bourgeoisie) remained very important<sup>18</sup>, though there seems to have been an improvement according to the social status of bankers (anti-capitalist and anti-Semitic resentments were strong in the Monarchy, especially after the stock-exchange crash of 1873), if we consider the increased number of ennoblements among this group as an indication. But quite a number of these ennoblements were due to the patriotic duty of selling war bonds; the bankers *Bernhard Popper (WBV)*, *Alexander Spitzmüller (CA)* and *Eugen Minkus (UB)* were all rewarded in 1915 for that reason.<sup>19</sup> Some social events, memberships or positions strictly remained a domain of the ‘first society’.

*Karl Morawitz (+1914)*, *Theodor von Taussig (+1909, Governor of the BCA)* or *Max Gomperz (+1913)* were well-known names not only in the Austrian financial world. Their dates of death indicate the emergence of a generational change among the banking community. Comparing the two successive governors of the *Bodencredit-Anstalt*, *Taussig* (born in 1849) and *Rudolf Sieghart* (born in 1866), the latter stood for a new type of banker. As journalist ‘he had made himself very useful to various Austrian governments, particularly in influencing Deputies and bribing the press’.<sup>20</sup> In retrospect, these seemed to be – at least some of – the qualities needed in the 1920s.

The full importance and range of the networks built through interlocking directorates can only be understood by knowing more of the closely-knit private networks of relationships based on business interests, personal friendships and marriage policy, but sources are rare.<sup>21</sup> *Sieghart* certainly was one of the masters in bringing to bear his relations and contacts with journalists and politicians. Private correspondence or memoirs in this respect give us more insight than bank or industry

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<sup>18</sup> It was not only the bank boards where these different strata of upper class met. Walking along the Viennese ‘Ringstraße’ one gets the expression of an almost harmonic coexistence. The palaces of aristocrats, bankers and industrialists bordered each other. One architectural expression of this ‘melting process’ is the position of the palais of the industrialist Franz Wertheim vis à vis the palais of Archduke Ludwig Viktor at the Viennese Schwarzenbergplatz on the Ringstraße.

<sup>19</sup> Fessen (1974).

<sup>20</sup> Then he had a brilliant career in the Imperial Civil Service and was finally made Governor of the *Bodencredit-Anstalt*. Already in his first years as Governor he burst into some former domains of the *Credit-Anstalt*, a very untypical and startling behavior at that time. Cottrell, (1994: 157).

<sup>21</sup> As one of the few examples allowing us an insight into a family of the Viennese haute bourgeoisie and its network of relations see Arnbom (1990).

records. Important positions on bank or industrial boards were filled up with either friends to create a system of confidants or with members of the families. Sisters and brothers, daughters and sons were often married to other bankers or industrialists. Both patterns mixed together were found in the case of the so-called ‘*Wittgenstein-Clan*’, a network of intimate either family or friendship relations. The use of the instrument of ‘marriage policy’ was personified by *Wilhelm Kestranek*, one of the most influential members of the ‘*Wittgenstein-Clan*’, whose sisters were married to industrialists.<sup>22</sup> Marriages connected the Jewish families *Gomperz*, *Auspitz*, *Lieben*, *Sichrovsky* and *Wertheimstein*, to mention only one other example.

One gets the impression that almost all of the bankers and industrialists knew each other very well. The *Kupelwiesers*, *Wittgensteins*, *Gomperz*, *Schoellers* and *Miller-Aichholz* met to celebrate their birthdays, Christmas or the New Year’s Eve, they played cards in their palaces in the noble districts of Vienna or in their summer chalets at the lakes in the *Salzkammergut*, in *Carinthia*, in the *Semmering* region or elsewhere. They met at horse races, at the opera, theatre or in the concert-halls. And it seems that these private amusements and meetings were often connected with business talks, if not decisions. Finally, speaking about this segment of the Austrian economic elite, it would be unfair not to point at their outstanding function and important position in the society of the glorious ‘*Fin-de-Siècle Vienna*’ as patrons of literature, music, painting and architecture and as art collectors. Only to mention a few examples, one of the main financial and mental supporters of the Viennese ‘*Secession*’ and one of the best friends of the director of the Vienna Opera, *Gustav Mahler*, was *Karl Wittgenstein*, the sugar-industrialist *Ferdinand Bloch-Bauer* possessed one of the largest collection of paintings of *Gustav Klimt*, *Ferdinand’s* wife *Adele* was portrayed twice by *Klimt*.<sup>23</sup>

### **Appearance of unbroken prosperity: Bank-industry networks in the 1920s**

Economically, the dissolution of the Habsburg Monarchy and the establishment of the successor states for Austria as one of them meant ‘the disruption of a centuries-old inter-regional division of

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<sup>22</sup> See Günther (1936: 70-1). Kestranek was one of the main figures of the Austrian iron cartel, during his career he was general manager of the *Prager Eisenindustrie-Gesellschaft* or president of the *Alpine Montangesellschaft*, only to mention a few of his functions. The list of further examples is long, networks of family relations existed between the *Schoellers*, *Skenes* and *Seybels*, in Hungary between the families of the *Dreher*s and *Haggenmacher*s.

<sup>23</sup> The question of restitution of one of these portraits (*Die Goldene Adele*) was the most prominent restitution case in the last years.

labour and the splitting-up of a large, fairly autarkic domestic market'<sup>24</sup>. And although the new state inherited a relatively large proportion of the Monarchy's population and especially of its industrial resources and companies, there was widespread doubt in the public that Austria constituted a viable economic entity at all.

One of the few fields left where Austria still 'towered above its new frontiers' was the influential and strategic position of the Viennese universal banks in the former Habsburg territory. The main question underlying this chapter was whether the Viennese banks succeeded or not in retaining their strategic positions in their former spheres of influence in the 1920s, i.e. were former personal and economic links disrupted or maintained under the different political and economic conditions?<sup>25</sup> Among a variety of changed circumstances I want to concentrate at least on three influential factors for the newly composed bank-industry networks: nationalization (here the term is used for the measures of 'nostrification' of the successor states after 1918), internationalization and inflation. Each of these developments entailed the rise of new groups of 'dramatis personae' on the bank-industry-scene.

### *Nationalization*

The establishment of new borders and currencies was almost immediately followed by a process of 'nostrification' or nationalization – with respect to banks and industry – in most of the successor states aiming at a reduction of the former German or Austrian dominant economic position and influence. The interpretation of the real consequences of these legislative measures remains contradictory. The period after 1918 saw an upswing of domestic banks in the successor states. The best known and outstanding example is the Czech *Zivnostenská banka*, which served as new banking connection for a lot of former industrial customers of Austrian banks. The bank systems in the successor states followed the Austrian example including the practice of delegating bank managers on industrial boards and thus creating new big linkers. Nonetheless, most of the Viennese banks – though their starting positions after 1918 differed widely – were able to retain influence over a large part of their former industrial 'concerns' through agreements with both local banks in the successor states (either newly founded or already existing ones) and Western financial partners. In these banks the Viennese banks brought in their branches, a strategy often connected with the

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<sup>24</sup> Matis (1983: 73).

<sup>25</sup> Matis (1983: 74). Matis' results in his case-study point at a high degree of continuing influence.

acquisition of substantial minority holdings in these banks. After these transformations Austrian banks had to share their old industrial business with domestic institutions of the successor states, their often monopolistic position as former banking connection had got lost. The degree of shrunk influence is hard to specify

Let us concentrate on the case of the *Wiener Bankverein*.<sup>26</sup> In 1921 the *General Bohemian Bank Union* was created incorporating the eighteen Czech branches of the *WBV* (the *WBV* and the *Société Générale de Belgique* group including the *Banque Belge pour l'Étranger* both took and held a considerable participation in the bank). This enabled the *WBV* to keep its influence - at least indirectly - on Czechoslovak holdings like those in the rubber industry (*Gummi- und Balatawerke Matador*, *Prager Gummifabrik Vysocan*), the *Kabelfabrik AG*, the *Noe Stroß AG*, the *Moravia Brauerei und Malzfabriks AG*, the *Erste Pilsner Actienbrauerei* or the *Mannesmannröhrenwerke AG*.<sup>27</sup> In 1922 the eight branches in Poland were turned into the *General Polish Bank Union* – again with foreign support of the afore mentioned *Banque Belge pour l'Étranger*, the Swiss *Basler Handelsbank* and Polish capital. The same international cooperation was found in the case of the *General Yugoslav Bank Union*, established in 1928, where the *WBV* brought in its two branches in Belgrade and Zagreb. This was only one way among a variety of methods used by the banks to secure themselves a firm base in the new states.<sup>28</sup>

In spite of these arrangements, some historians on the other hand stress the banks' decreasing significance, as the nationalization process on the whole was resulting in heavy losses for the banks' industrial spheres of influence. According to industries, the sectors of mining and metallurgy, the brewing industry, the chemical and mineral oil industries, food, textiles and especially sugar, where almost all of the bank holdings were now situated in Czechoslovakia, were most heavily affected. The losses according to banks differed widely, too. And not all banks were in such a lucky situation like the *Credit-Anstalt* to find support in case of emergency from a renowned institution like the *House of Rothschild*, a support symbolized by *Louis Rothschild* assuming the presidency of the bank in 1921.

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<sup>26</sup> See Verdonk (1994: 195). A bank with a centralized structure and no branch system like the *Bodencredit-Anstalt* had to find another solution. It passed its now Czechoslovak industrial business to the *Zivnostenská banka* in 1919, both banks making an agreement on the coordination of future business transactions. To the further development of the *BCA* see Cottrell (1994).

<sup>27</sup> See also *Der Österreichische Volkswirt, Bilanzen*, H. 20, 16. 2. 1929, 211.

<sup>28</sup> A strategy widely used to outsmart the successor states' nostrification laws and to camouflage the existing property relations consisted of founding holding companies, mostly based in an Entente or neutral country. For further methods of cooperation see Matis (1983: 79-80).

Glancing over the list of ‘nostrified’ enterprises it was not only the large number of enterprises, where the former influential position of Viennese representatives had now got lost or at least diminished, but the ‘quality’ of the enterprises that became painfully apparent, many of them the former ‘heartpieces’ of the banks’ industrial holdings like the *Mining and Metallurgy Company*, the *Skoda-Works*, the *Association for Chemical and Metallurgical Production* or the *Prague Iron Industry Company*, all situated in the early industrialized areas of Bohemia and Silesia which now belonged to Czechoslovakia. But it was not Czech domestic capital alone that took control over these holdings, Western-European and US-American capital groups replaced the Austrian banks. This, of course, was also true for the other – more economically backward – successor states, for Poland or Hungary, where the level of capital formation was even lower.

### *Internationalization*

After 1918 the Viennese banks had to face the alternatives of either concentrating their business to the newly established Republic of Austria or trying to uphold their spheres of influence in Central and South-East Europe. The bankers’ decision in favour of the ‘internationalization’ of their business activities – in spite of some warning voices – was a quick reaction to both the ‘nostrification’ movements and the loss of their credit-worthiness in the times of inflation. There will have been psychological factors, too: the public discussed the question of economic viability, and the weakened Austrian self-confidence desperately searched for ways of compensation. When the ‘Anschluss’ to Germany as one way out of the economic disaster – favoured not only by German Nationalists but also by the Social Democrats – finally was forbidden, the banks were soon regarded as last bastions of the former Austrian glory. Not least, the decision was also strongly supported by foreign capital groups who had recognized that an influence on the Viennese banks meant gaining an almost ideal starting position with regard to the industrial combines of the successor states, and they could thus avoid the higher risks of direct industrial participations.<sup>29</sup> E. g., the participation of the French *Schneider-Creusot-Holding Union Européenne industrielle et financière* in the *Niederösterreichische Escompte-Gesellschaft* aimed at the bank's concern companies, the Czechoslovak *Prague Iron Industry Company* and the Austrian *Alpine Montangesellschaft*.<sup>30</sup>

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<sup>29</sup> See Cottrell (1983).

<sup>30</sup> Bussière (1983: 404-5).

Determined efforts of the leading Austrian banks to broaden their weakened capital base by attracting western capital led to remarkable shifts both in their ownership structure and on their boards. The percentage of foreign board members since the early 1920s lay between one third and one half. Large parcels of shares of the Viennese banks – because of hyperinflation often at a very cheap price – were sold to foreign banks. Substantial foreign investment could soon be found in the banking system and in the industrial concerns. The following compilation is a survey of US-American investments in Austrian banks during the 1920s.

### List of American direct investments in Austrian banks, 1920 - 1928

Viennese bank	Year of participation	Investment by
Credit-Anstalt	1920	Kuhn, Loeb & Co. Guaranty Trust Co.
	1927	International Bank of Acceptance Bank of Manhattan Goldman, Sachs & Co.
Credit-Institut	1921	Hallgarten & Co.
Bodencredit-Anstalt	1922/23	J.P. Morgan, N.Y. possibly Baring Brothers J. Henry Schroeder, N. Y.
Mercurbank	1923	Hallgarten & Co. E.F. Hutton & Co., N.Y.
	1928	Hallgarten & Co.
Niederösterreichische Escompte-Gesellschaft	1926/27	W.A. Harriman & Co., N.Y.
Wiener Bankverein	1927	Dillon, Read & Co., N.Y.

Sources: Matthes (1979: 140); 'Compass' volumes 1921 and following.

In 1925 *Walter Layton* and *Charles Rist* had claimed in their famous report on the economic situation of Austria for the *League of Nations* that the Viennese banks before 1918 'led the

penetration of Eastern and Southeast Europe with Austrian capital'<sup>31</sup>. Only replacing 'Austrian' by 'foreign' (US-American, British, French, Belgian or Swiss) you have the situation of the 1920s. Foreign deposits – the bank-industry networks would have broken down without the Austrian banks' heavily borrowing abroad – were used to grant credits to its former industrial clientele in the successor states, the Viennese banks fulfilled the function as intermediaries as did some of the domestic banks, many of them as we have already heard also under at least partially Austrian capital influence.

Let us again devote to the case of the *Wiener Bankverein* and have a look at its foreign shareholders after 1918. The *Deutsche Bank* held a participation from 1899 on which by 1929 came to five per cent of the equity. On the board of the *WBV* the *Deutsche Bank* was represented by one of its managing directors, *Oscar Wassermann*. The afore-mentioned cooperation of the *WBV* with its international banking partners in Belgium and Switzerland was not restricted to the newly founded institutes in the successor states, the foreign banks were also involved in the increases of the *WBV*'s capital stock in the early 1920s and thus represented on its board. In 1920 a parcel of 150.000 shares went to the *Société Générale de Belgique (SGB)* and the *Banque Belge pour l'Étranger (BBE)*, the partners of the *WBV* in the nationalization of its foreign branches after 1918 as shown before. Both banks participated in the new share issues of the *WBV* realized in 1921, 1922, 1923 and 1927. On the board of the *WBV* the Belgian banks were represented by Baron *Edmond Carton de Wiart*, executive manager of the *SGB* from 1910 to 1946 and board member of the *BBE*, a typical big linker in the Belgian economy, president of five banks and four coal-mining companies, and by Chevalier *de Wouters d'Oplinter*, the vice-president of the *BBE*. In 1922 the Swiss *Banque de Commerce de Bale* bought a parcel of *WBV*-shares (the business transaction was connected with the delegation of two representatives from the Swiss bank, its president *Dr. Alfred Wieland-Zahn* and *August Morel-Vischer*, on the Austrian board). Finally, in 1927 the banking house *Dillon, Read & Co.* participated in a new issue of the *WBV* and took 500.000 shares (18 per cent of the share total, *W. M. L. Fiske* delegated on the board). There were three other foreigners on the board, two Italian representatives from Trieste (*Antonio Cosulich* standing for the old *WBV*-connection to the *Banca Commerciale Triestina* and *Carl Arnstein*) and one Czechoslovak citizen, *Oskar Klinger jr.*, following his father, a shareholder of the *WBV*, on the board.

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<sup>31</sup> Layton, Rist (1925).

In addition to the afore-mentioned new net of affiliated banks, longstanding relations of the *WBV* led to the *Banque Balkanique* in Sofia, the *Banca Commerciala Romana* (in both banks the *WBV* after 1918 had lost its decisive influence to the *Banque de l'Union Parisienne*)<sup>32</sup> and to the *Landesbank für Bosnien und Hercegovina* in Yugoslavia. Almost the same group of Austrian, Belgian and Swiss bankers was found on the boards of these banks in the successor states, e. g. the managing director of the *WBV*, *Oscar Pollak*, who was represented on the boards of four foreign *WBV* bank affiliations. These banking partners participated in granting multi-bank credits (*Konsortialkredite*) to concern companies in the successor states. Capital influx to former *WBV* concern companies, e. g. the Hungarian coal and mining giants like the *Rimamurány-Salgótarján-Iron-Works*, in the early 1920s would have been impossible without that international cooperation and support.

The boards of the Austrian banks thus became meeting points of the international business world, only to mention a few representatives like *Sir Peter Bark*, *Robert Hankar-Solvay*, *Eugène Schneider*, *William A. Harriman*, *Sir Herbert A. Lawrence* or *Max Warburg*. As expected, the *Anglo-Oesterreichische Bank* and the *Länderbank*, which had to be transformed into English and French institutions after 1918 because of their high indebtedness, were the most outstanding examples with regard to the internationalization of their boards and the exchange of board members.<sup>33</sup>

### *Inflation*

The immediate post-war time was characterized and influenced by a third feature, the phenomenon of hyperinflation which led to considerable shifts in the ownership of industrial holdings and banks and to the take-overs of some Viennese banks by war profiteers and inflation-winners. A new segment of Austria's economic bourgeoisie 'entered the stage' (*Karl Kraus* in his '*Fackel*' named them 'sharks') and attacked the members of the old-Austrian economic elite. The best known examples – but by far not the only ones – are those of *Camillo Castiglioni*<sup>34</sup> and *Sigmund Bosel*, closely connected with the fates of the *Depositent-* and the *Union-Bank*. Ownership shifts had already caused a complete change on the board of the *Depositentbank* during the war. The bank's

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<sup>32</sup> Bussière (1983: 406-7).

<sup>33</sup> Out of 14 members of the Generalrat of the Anglobank in 1926, the last year of its existence, the 'oldest' member was represented on the board since 1912, all others since 1922 (the year of the Anglicization of the bank, eight new board members) and the years following.

president in 1916, *Dr. Josef Kranz*, a profiteer supported by the private bank *Reitzes*, had to resign because of fraud and was followed by the weak *Karl Marek* (Bank President 1917-18). But this was only an interlude. *Camillo Castiglioni*, the bank's vice president in 1918, was finally able to acquire the majority of the bank's shares and seized power in 1919 keeping his function until 1922. The former influence of the private bank *Reitzes* had been totally replaced by *Castiglioni* and a group of domestic and foreign financiers supporting him (among them the *Banca Commerciale Italiana*). After his reign a consortium of speculators and industrialists led by *Paul Goldstein* (bank president from 1922-24) and some Prague bankers took the power. In 1924/25 the board of the *Depositenbank* consisted of 13 members, none of them was longer represented there than since 1917. Especially under *Castiglioni's* reign the accumulation of a large number of industrial holdings within two years had transformed the *Depositenbank* into one of the main Viennese banks. Huge industrial holdings changed their proprietors, so large parts of the *Skoda*-concern (e.g. the *Daimler Motoren AG* or the Austrian *Brown-Boveri*-works) were transferred from *Dr. Karl Skoda* to *Castiglioni* respectively the *Depositenbank*. Inflation was a time of chaos, of speculation and of controversial business practices performed by the banks. The construction of dubious syndicates of issue placed the old share holders at a great disadvantage and favoured its members. Outsiders, but as it seems also bank insiders could not differentiate between private and bank business, the books hid more than they revealed. When *Castiglioni* had to resign, he was indebted vis-à-vis the *Depositenbank* with almost one third of the bank's capital resources.

Another famous war profiteer was *Sigmund Bosel*. Having made his fortune as a supplier of war material, he opened a bank house and was able to acquire the majority of shares of another important Viennese universal bank, the *Union-Bank*, in the early 1920s. What is characteristic for this group of nouveaux riches is that they disappeared as quickly as they had entered the stage of the Austrian financial world. Ownership changes and thus changes on the boards during the inflation period occurred in other banks, too. In 1921 *Max Feilchenfeld*, *Wilhelm Kestranek* and *Oskar Rothballer*, 'remnants' of the former 'Wittgenstein-Clan' around the *Niederösterreichische Escompte-Gesellschaft*, resigned from their bank functions, *Siegwart Mayer-Ketschendorf*, representative from the *Gutmann* brothers' private banking house, became the bank's new president.

But there seems to have been another characteristic of this segment of Austria's economic elite after 1918: Their sensationalism, a very 'loud manner' of acting in the public and showing their

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<sup>34</sup> See März (1981: 358, 465-9).

fortune and financial generosity. Nonetheless, it should be mentioned here, that the group of nouveaux riches was almost demonized in parts of the press (especially as *Castiglioni* and *Bosel* were Jews) and interpretation has to be done very carefully. A superficial glance at figures like *Castiglioni* or *Bosel* would lead to the impression that they simply were heirs of the banks' former leading figures imitating their style. They lived in Viennese palais' of the same style and in the same parts, the noble districts of Vienna; their art collections united the same painters. Financially they supported theatre directors, e.g. *Castiglioni Max Reinhardt*, one of the founders of the *Salzburg festival* and director of the Viennese 'Theater in der Josefstadt', whereas *Bosel* was known as one of the patrons of the *University of Vienna*. But what had changed were both attitude and style. Especially one anecdote from *Castiglioni's* life impressively shows this 'clash of cultures'. *Castiglioni* bought the Viennese palais of one member of the old-Austrian economic elite, one of the owners of the famous private bank *Miller, Eugen Miller-Aichholz*, who had come into financial difficulties during the war.<sup>35</sup> *Miller-Aichholz* had been one of the most famous Austrian art collectors, the heart-pieces of his collection were five colossal paintings by *Tiepolo* hanging in the staircase of his palace. The pictures were part of the business transaction between *Miller-Aichholz* and *Castiglioni*. *Castiglioni* then hid the *Tiepolo* paintings behind a curtain, invited the Viennese society for supper, assembled them in the staircase, pushed a button to open the curtain and the pictures slowly but dramatically appeared.

How did these factors shape the relationships between banks and industry? Against *Gerschenkron's* assumption that the close and hierarchical relationship between banks and industry is transitory because more effective credit and capital markets cause the independence of industry, the Austrian situation was different: Bank-industry links were even strengthened in the 1920s. New foundations in Austria and abroad were thought to compensate for many losses. As before the First World War a large majority of industrial joint-stock companies tried to finance their investments by issuing shares. Only a few large-scale enterprises like *Berndorf Krupp*, the *Alpine* or the hydro-electric power plants were able to get a foothold on foreign capital markets. As long-term credits in general played a subordinate role, the other alternative for industrial enterprises consisted in taking up short-term credits which on the long run often led to the same result, as the Viennese banks had developed a business strategy forcing firms to repay credits by new share issues (policy of

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<sup>35</sup> Haider (1984: 155).

‘Veraktionierung’).<sup>36</sup> The Vienna stock exchange saw a last boom in 1923/24, afterwards all expectations for its revival proved illusory, the banks could not get rid of their huge share parcels. The controlling influence of the banking complex over corporate industry hence continued to increase in both the years of crisis and of slow recovery.

Nonetheless, thinking of the enormously high degree of indebtedness of some industrial clients, being unable to pay interest and amortization, there were enough hints that what looked like a mere continuation of the ‘business as usual’ was an expression for the same kinds of business policy and practices, but under drastically changed frame conditions: After 1918 the banks were not so much promoting industrial enterprises, but rather rescuing their own industrial subsidiary enterprises.<sup>37</sup> The banks ignored all warning signs; their methods more and more deserved the notion of ‘disaster banking’. Bank balances deviated more and more from reality, hid more than they showed. Only to mention a few points<sup>38</sup>, the banking practice of paying high dividends and thus trying to hide the real financial situation of the debtor and of the bank, the method of ‘borrowing short, lending long’, i. e. supplying industrial enterprises with short-term credits which were designed for long-term investments, proved to be features of a short-sighted, in the extreme even fraudulent business policy, the results of which will be described in the next chapter. But before, some concluding remarks on the consequences of the above-mentioned tendencies should be made concentrating on the question of continuity and discontinuity with regard to the personal interlockings with companies in the successor states. For that reason let us cast a glance on the bank-industry networks in 1928, the peak of a period of relative recovery of the interwar Austrian economy.

In general, the number of interlockings had further increased but as a high percentage of representatives of foreign banks determined the composition of the Austrian bank boards and their directorates in many cases had nothing to do with the fields of activity of Austrian banks, the first impression is misleading. But even only counting the interlockings of Austrian board representatives and those few links of delegates of the successor states leading to companies where Austrian board members were represented too, the picture revealed seems to be one of almost unbroken power (see figure 2).

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<sup>36</sup> Weber (1991b: 21).

<sup>37</sup> Teichova (1992: 19).

<sup>38</sup> See Weber (1991b: 22).

The number of banks in the sample – due to the process of Austrian banking concentration – had been reduced to six banks. Since the mid-1920s a wave of bank crashes and mergers – starting with the liquidation of the *Depositenbank* in 1924/25, the take-over of the *Anglo-Oesterreichische Bank* by the *Credit-Anstalt* in 1926 and the amalgamation of the *Verkehrs-* and *Union-Bank* with the *Bodencredit-Anstalt* in 1927 – had shaken the Austrian banking world. These mergers left their marks with regard to the accumulation of industrial participations and the composition of bank boards. Especially the increase of *BCA*-interlockings resulting from these mergers is drastically shown in figure 2. More than one third among the industrial enterprises in the sphere of influence of the *Bodencredit-Anstalt* in 1928 were inherited from the *Union-* and *Verkehrsbank*, on the *BCA*-board five former members of the *VB* and four of the *UB* were represented, either important shareholders of these banks or leading bank managers familiar with the *UB* and *VB* business.

Concentrating on the big linkers, 28 bankers or industrialists now fulfilled the criteria of definition in the bench year 1928, among them eight foreigners whose interlockings were difficult to handle. Thinking of big linkers like *Max Warburg*, *Carl Fürstenberg* or *Evence Coppée* their industrial interlockings had (in most cases) nothing to do with the Austrian banks' former spheres of influence. On the other hand, some of the foreign big linkers like *Paul Kornfeld*, manager of the *Hungarian General Credit Bank*, a former *CA*-affiliation, were connected with industrial enterprises which had mainly been financed by Austrian banks before 1918. The question underlying whether Austrian capital indirectly still played an important role is difficult to answer, the more difficult thinking of bankers like *Otto Feilchenfeld*, the son of the former president of the *Niederösterreichische Escompte-Gesellschaft Max F.*, and as Czech citizen now representing the *Czech Böhmisches Eskompte-Bank und Credit-Anstalt*. Private banks/bankers like the *Schoellers* or *Miller-Aichholz*' had lost important positions in the network of corporate industry and much of their often decisive influence on the Viennese universal banks. Their industrial holdings had been taken over by the great banks. The accumulation of interlocking directorates by single bank managers had reached its peak: *Fritz Ehrenfest*, manager of the *Credit-Anstalt*, showed 44 industrial interlockings, *Ludwig Neurath*, chairman of the *CA* managing board, came to forty seats. In 16 industrial enterprises *Neurath* stood on top of the boards, in further ten companies he acted as vice-president. *Neurath* was born in 1866, his banking career he had started in the Prague private bank *Thorsch*. Because of his reputation as an expert of the mineral oil industry *Neurath* was made industrial

consultant of the CA in 1906. In 1910 he became a member of the managing board; in 1916 he followed *Spitzmüller* as chairman. His CA-career ended in 1931 after the bank's crash.

Concentrating on the banks' foreign industrial spheres of influence, both the personal continuity<sup>39</sup> on many industrial boards of enterprises in the successor states since the last bench year and the share of Austrian representatives are surprisingly high. The transfer of headquarters caused by 'nostrification' did not necessarily mean the total abandonment of the Austrian influence, certainly not at the level of personal links. This is shown – as one of many examples among Austrian bankers – by the geographical distribution of industrial interlockings of *Bernhard Popper-Artberg*, the honorary president of the *Wiener Bankverein* in 1928 (see figure 4) revealing a picture of unbroken power and influence, as if nothing had happened.

Nonetheless, the debate whether Austrian banks could preserve their influence on the economies of the successor states or not cannot be decided by counting interlockings with foreign enterprises. If we consider the reduced financial capacities of the Austrian banks and remember their new role as mainly intermediaries of capital, the Austrian board representatives in 'nostrified' companies were in most cases definitely not provided with the power of decision making.<sup>40</sup> Urgently needed in this respect are more case studies allowing us detailed insights in the relations of a bank with a single firm and in the functions and activities of Austrian board representatives.

Concentrating on former Austrian and now Czechoslovak industrial enterprises, the composition of their boards mirrored the consequences of the afore-mentioned 'nostrification' and of internationalization, the new networks consisting of representatives of Czech, Austrian and Western European capital groups. In the case of the *Mining and Metallurgic Company*, the French industrialist *Eugène Schneider*, head of both the firm *Schneider et Cie.* and its holding company *Union Européenne industrielle et financière (UEIF)*<sup>41</sup>, had been appointed president. And it was *Schneider* who as main shareholder undeniably played 'the decisive role in the finance, commerce and technology' of the Czechoslovak mining giant.<sup>42</sup> *Sieghart*, the *Bodencredit-Anstalt's* president,

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<sup>39</sup> There is another partial explanation for the high degree of personal continuity, as some Austrian bankers and industrialists had acquired a foreign citizenship after 1918. They were often found on the same bank boards in 1917 and in 1928, but were then representing foreign (mainly Czech) interests. Theodor Liebieg was found on the board of directors of the *Bodencredit-Anstalt* in both bench years, but after 1918 he was appointed president of the Bohemian Union Bank. So, his interlockings could not be counted for the BCA.

<sup>40</sup> This was also true for some, especially the largest Austrian companies, e.g. the *Alpine Montangesellschaft* and the *Veitscher Magnesitwerke*, where Austrian bank representatives held top positions, while the majority of shares was foreign-owned. The personal continuity was in these cases an indication of the continuation as bank connection.

<sup>41</sup> To *Schneider* and the *UEIF* see the study of *Beaud* (1983: 375-97).

<sup>42</sup> *Teichova* (1974: 107).

was one of the vice-presidents of the company; the other was *Dr. Jaroslav Preiss*, the vice-president of the *Zivnostenská banka* (which together with the *BCA* acted as common financier of the now Czechoslovak holdings of the *BCA*). *Dr. Georg Günther*, the former Austrian general manager of the company, had been replaced by a Czechoslovak citizen but – because of his excellent know-how – still acted as technical adviser on the board.

There were other ‘nostrified’ companies, where *Sieghart* still stood on top of the boards, e. g. the *Cosmanos* group of textile companies and the *Association for Chemical and Metallurgical Production* (in that company also among the three vice-presidents two representatives of the *BCA* were found). But nonetheless, it is difficult to value if the decisive influence on the chemical enterprise was exerted by the Austrian *Bodencredit-Anstalt*, as the Belgian *Solvay* industrial group had taken a considerable share participation in it (but was not represented on the board), a smaller one in the *BCA*, where it was represented by two *Solvay* delegates, among them *Robert Hankar-Solvay* himself.

And this leads us to an important observation: In contrast to the delegates of *Schneider & Cie.* and the *UEIF*, who were represented in both banks and industrial companies where they had taken an interest (see interlockings of the *UEIF*-representative *Pierre Cheysson* in 1928, figure 5), some of the new owners of the former Austrian holdings in Czechoslovakia seemed to have made use of the Austrian representatives and their years of experience according to the formula ‘Western capital + Austrian know-how’. They themselves in general were not found on the industrial boards of Austrian and foreign companies and seemed to have been satisfied with having an indirect influence on these firms through their role as board members of an Austrian bank. Let us finally take a look at the *Niederösterreichische Escompte-Gesellschaft* and some of its important holdings in the sectors of mining and smelting or engineering. In the steel-producing *Poldina hut* the *Zivnostenská banka*, the *Bohemian Discount Bank and Credit Society (BEBKA)*<sup>43</sup> and the *NEG* acted as common financiers, on its board the *NEG* held through its managing director *Wilhelm Kux* the function of chairman representative. On the other hand, the *NEG* (together with the *Credit-Anstalt*) had lost its influence in the *Prague Iron Industry Company* and in the *Skoda-Works* (since 1921 under influence of the French *Schneider-Creusot* group and its holding company *UEIF*).

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<sup>43</sup> This bank before 1918 had been the daughter institute of the *Niederösterreichische Escomptegesellschaft*, in 1919 an agreement was met between the *Credit-Anstalt* and the Prague bank concerning the takeover of the CA’s Czech branches. All three banks, CA, NEG and BEBKA, were linked through mutual interlockings.

To conclude, the impressive number of interlocking directorates of Austrian citizens with holdings in the successor states hides the fact that Austrian banks were – though still influential – in most cases not anymore in a decision-making position. Austrian economic interests had largely been replaced by either banks of the successor states or Western business and financial groups. What at first sight seemed to be a mere continuation of pre-war activities turned out to be more complicated. While on the one hand the heritage of traditional market relations from the Habsburg economy continued until at least the crash of the CA in 1931, on the other hand disintegrative features had a major role in reshaping business structures during the 1920s.<sup>44</sup> The banks' decision to continue with 'business as usual' met with a range of obstacles as there were: 1.) The new and sometimes hostile environment caused by altered political circumstances, and, 2.) the concomitant symptoms of inflation, i. e. the substantial weakening of the Austrian banks' capital base, an almost complete disappearance of the industrial working capital, and high interest rates following the end of inflation.<sup>45</sup> But in spite of these and other obvious signals for a slow but systematic retreat from their expansionist business policy – commercial credits had become irrecoverable, etc. –, the optimism of the bankers, who believed in a rapid return of the pre-war prosperity, remained unbroken.<sup>46</sup> When this attitude finally turned out to be a mere illusion, it was too late, the consequences all the more painfully felt.

### **The eagle's clipped wings: The crash of the *Credit-Anstalt* and its consequences on bank-industry networks**

In 1937, the last bench year analysed, the bank-industry networks clearly showed what 1928 had been hidden by a rather impressive share of board memberships of Austrians: the considerably reduced importance of the Viennese banks with regard to holdings in their former spheres of influence. What were the causes for this shrinking process? As in the chapter on the 1920s, three main features will be looked at: Banking concentration, the process of 'Austrification'<sup>47</sup>, and the restructuring of Austria's industry.

#### *Banking concentration*

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<sup>44</sup> See introduction, in: Teichova, Cottrell (1983, XXII).

<sup>45</sup> Weber (1991b: 20).

<sup>46</sup> Ibid.

<sup>47</sup> This term was used by Stiefel (1983: 415, 427-9).

The process of banking concentration caused further victims in the bank sample. It reached a first peak in 1929 with the *Bodencredit-Anstalt*'s merger into the *Credit-Anstalt*. The take-over was accompanied by the appointment of 14 former *BCA*-board members on the *CA*-board. Some of them like *Stefan von Auspitz* (*Union-Bank*) or *Enrico Hardmeyer* and *Dr. Richard Ritter von Skene* (both *Verkehrsbank*) were represented on their third bank board since 1927, within four years. Others disappeared, among them famous bankers or industrialists like *Sieghart*, *Dr. Alfred Herzfeld* or *Dr. Karl Taussig*, directors with terms of function of twenty years or even more like *Dr. Maximilian Mayr* (on the *BCA*-board since 1895), *Dr. Leopold Croy-Dülmen* (since 1910), the Czech representatives *Theodor Liebieg* (since 1910) and *Franz Ringhoffer* (since 1911) or the international financiers *Emmanuel Janssen*, *Dr. Peter Hofstede de Groot* or *Edgardo Morpurgo*. The *BCA-CA* merger serves as best example of how the increased process of banking concentration led to a greater number of dependent companies and more packets of unsaleable shares. But, was this result unforeseen, did it really happen unexpected? Reasonable doubt seems more than justified, as the illiquidity of the *Bodencredit-Anstalt* was obviously caused by some frozen industrial accounts. On the other hand, the take-over was no voluntary decision of the *Credit-Anstalt* management, heavy pressure from the government was exerted on its president, *Louis Rothschild*.

Burdened with the *Bodencredit-Anstalt*'s heritage and with the short-sightedness of bank managers and unsound banking practices of their own, finally suffering from the effects of the 1929 crash and depression, the *Credit-Anstalt* broke down in May 1931. What followed was a real turning point in Austria's banking and economic history. State intervention had to rescue the main representative of the Austrian universal banking system, as the Austrian government was threatened by the vision that without the state's financial support ten-thousands of unemployed would be the result caused by industrial liquidations.<sup>48</sup> As later investigations proved lack of insight and of control were possible explanations for the bank's breakdown, and as the system of interlocking directorates was intended to serve as a system of supervision, hence directly aiming at reducing all kinds of uncertainties, the *CA*-crash can also be interpreted as proof for the failure of that banking practice. International board members like *Eugène Schneider* were shocked at their degree of being not informed, but would it not have been their duty as creditors to alter this situation, to be informed, so to say? One of the immediate consequences of the *CA*-crash was the withdrawal of all non-Austrian board members. What followed was a complete exchange of directors and managers

which was finished in summer 1933, within two years. Again, an extract from the list of resigning board members of the CA<sup>49</sup> resembles an extract of a ‘Who is who’-volume on international and Austrian finance.

In September 1931 four new delegates entering the board (*Dr. Guido Hösslinger, Dr. Alois Marquet, Dr. Richard Stepski and Dr. Hans Stigleitner*), all of them state representatives, symbolized the beginning of a new era for the bank.<sup>50</sup> Former ministers (so the former Minister of Finance *Emanuel Weidenhoffer* was appointed president of the board of directors), high state officials and functionaries of the *Oesterreichische Nationalbank* formed the composition of the bank board, representing the new owner of the *Credit-Anstalt*, the Austrian state.

In 1934 the process of banking concentration in Austria came to its end. The *Credit-Anstalt* took over the *Wiener Bankverein* and the current banking business of the *Niederösterreichische Escompte-Gesellschaft* (its industrial holdings were united in the newly established *Österreichische Industriekredit AG* or *ÖIKAG*) and hence gained - under its new name *Oesterreichische Creditanstalt-Wiener Bankverein (CABV)* - an almost monopolistic position in banking. The result of the state-managed consolidation of the Austrian banking system was that aside the *CABV* and the *ÖIKAG* there were only two other banks left from the original sample of ten banks investigated, the Vienna branch of the *Banque de Pays de l’Europe Centrale* (the former *Länderbank*) and the German-owned *Mercurbank*.

### *The restructuring of Austria’s industry*

If we define the influence of banks (on a micro-economic level) according to the extent to which they can exert control over other companies or influence their business policy<sup>51</sup>, then the banks had reached their peak of power in the 1930s. To minimize their losses the banks – or better the *Creditanstalt-Bankverein* – made the continuation of their services only available at ‘the cost of

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<sup>48</sup> See Stiefel (1989).

<sup>49</sup> Stephan Auspitz-Arteneegg (former BCA-board member), Exz. Peter Bark, Ferdinand Bloch-Bauer (BCA), Albert Breton, Adolf Engländer, Eugen Friedländer (BCA), Philipp Gomperz, Ing. Dr. Georg Günther (BCA), Rudolf Gutmann, Robert Hankar (BCA), Enrico Hardmeyer (BCA), Dr. Albert Hirsch, Baron Paul Kornfeld, Arthur Krupp, Franz Mayr-Melnhof, Sir Otto Niemeyer, A. Palache, Dr. Otto Petschek, Leopold Pilzer, Fernand Raux (BCA), Dr. Wilhelm Regendanz, Louis Rothschild, Eugène Schneider, Richard Schoeller (BCA), Dr. Richard Skene (BCA), Sir Henry Strakosch, Dr. Siegfried Strakosch (BCA), Ludwig Urban, Max M. Warburg or Emanuel Weissenstein (BCA).

<sup>50</sup> Both the later general manager of the CABV, Adrianus van Hengel, a Dutch, and his follower Dr. Josef Joham, coming from a Tyrolean provincial bank, can be taken as further examples of the new age. The appointment of the bank’s top position with a foreigner, later with a banker coming from the Austrian provinces and not from Vienna would have been impossible before.

extensive intervention into the organization and management of enterprises'<sup>52</sup>. However, this kind of business policy was heavily influenced, if not induced by the state. On quite a number of industrial boards Austrian bank representatives were now performing decision-making entrepreneurial roles. They were rationalising industrial structures by organising mergers, e. g. in the fields of automobile, car and locomotive production, and reconstructed dependent, highly indebted companies like *Berndorf Krupp*, *Wienerberger*, *Semperit*, *Wertheim*, the *Pottendorfer Baumwollspinnerei*, the *Hirmer Zuckerfabrik* or the *Erste Grazer Aktienbrauerei*. The methods used were the cancelling of shares (writing off large share parcels almost to nil) or the conversion of credits into new share capital. And if there seemed no other alternative they closed firms (e.g. *Climax Motorenwerke*, *Mitterberger Kupfer AG*, some textile and mineral-oil enterprises). Another expression of the restrictive business policy was that between 1934 and 1937 the credit volume of the *CABV* was reduced by 25 per cent.

#### *The process of 'Austrification' after 1931*

The years following the *CA*-crash can be characterized as a period of systematic and final retreat from the last remaining foreign holdings. A large part of the *Credit-Anstalt's* foreign assets, liabilities and shares was passed to the foreign assets holding company *Gesco* established in Monaco. In 1935 the *Creditanstalt-Bankverein* sold its minority participation - taken over from the *Wiener Bankverein* - in the *Bohemian Union-Bank*, one of the rare cases where capital groups of the successor states were able to buy back shares of their industries. In 1936 it proved necessary to reconstruct the former *WBV*-affiliations *General Yugoslav* respectively *Polish Bank Union*. While the Austrian influence on the Polish bank was drastically reduced, the Yugoslav bank is one of the few examples where the reconstruction led to a higher participation of the *CABV*. The foreign industrial holdings of the *Staatseisenbahn-Gesellschaft* were sold to a British-Romanian group. Not only that most of the remaining interests and participations, banks and industrial companies in the successor states had to be sold, the current credit business, too, had lost its multinational character for the second time after 1918/19. The role of Austria's banks as intermediaries of capital, i. e. their policy of borrowing substantial capital funds in the West in order to channel them to the East had come to an end.

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<sup>51</sup> Cassis (1992: 4).

<sup>52</sup> Mosser, Teichova (1991: 130-1).

Until 1937, the last bench year, the number of joint directorships had decreased by almost 70 per cent (see figure 3). The drastically reduced importance of the banks had become apparent in almost all fields of industry, in the case of the textile industry the number of interlockings had shrunk from 183 in 1928 to 35 in 1937. The number of interlockings, enterprises and concern companies of the *CABV*, the *ÖIKAG* and the *LB* did not differ widely from the numbers found in 1908, our starting point. But there was a difference, the distribution of interlocking directorates in 1937 clearly showed the consequences of the process of ‘Austrification’: The industrial holdings had - with the exception of the French-owned *Länderbank*<sup>53</sup> - lost their multinational shape. With regard to the number of interlockings the leading position of the *Credit-Anstalt* was not so outstanding as perhaps expected, but among the 143 interlockings found altogether in the case of the *Länderbank*, less than two thirds (88) of the links were constituted by Austrian board members. The French bank did not have to go the way of ‘Austrification’ and was able to keep most of its participations in the successor states. Exclusively foreign board members of the *LB* e. g. were found on the boards of the *Vereinigte Metallhüttenwerke Titan*, *Nadrag*, *Calan*, the *Resitaer Eisenwerke und Domänen AG* and the *Serbische Berg- und Hüttenindustrie AG*, all of them belonging to heavy industry and formerly under Austrian influence.

With regard to the position of banks within Austria’s large-scale industry, Austria’s ‘Big Business’ so to say, the *CABV* was by far the most central actor in the Austrian network of bank-industry relations.<sup>54</sup> Almost half of Austria’s largest industrial companies defined by share capital were interlocked with the *CABV*. In one sixth of Austria’s ‘Big Business’ a *CABV*-representative stood on top of the companies’ board of directors - this is contrasted by a relatively low degree of representation of the board members of the *LB* within Austria’s large-scale industry. The power within the bank-internal hierarchy had definitely been shifted to the managing board, a tendency though already earlier observed now at its peak. Banking concentration had been accompanied by a concentration of the power of decision making. This can be illustrated by two of the *CABV*-bank managers, *Dr. Franz Rottenberg* and *Ing. Erich Heller*. *Rottenberg* with 36 interlockings stood on top of the board of directors of 18 industrial joint-stock companies, on the boards of further eight companies he acted as vice-president. Among his 36 directorships only four led to foreign companies. *Heller* showed 28 industrial directorships and was the president of 11 enterprises. The

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<sup>53</sup> This is also shown by the main fields of activity of the *LB*, the chemical and mineral oil industries, which were either situated outside Austria or mainly foreign-influenced.

new bank managers were not in all cases bankers, many among them had studied law and started their careers as civil servants. *Dr. Ernst Mosing*, e. g., born in 1882, had – after his study of law – begun to work in the ‘Finanzprokuratur’ from where he changed to the Ministry of Finance. Before he was appointed manager of the *Bodencredit-Anstalt* he had worked as state commissioner at the Vienna stock exchange. After the *CA*-crash, *Mosing* was made vice-president of the reconstruction committee of the *CA*.

While the short description of bank-industry networks before 1918 concentrated on social aspects, some features of their development in the interwar period allow us to draw the conclusion that bank-industry networks included a political dimension, too.

### *The Links between Finance and Politics*

One characteristic of the Austrian bank-industry networks in the interwar period were the close interrelations between finance and politics.<sup>55</sup> Appointments of bank top managers often were a matter of political interventions and/or sympathies. This had been true in the cases of *Spitzmüller* and *Sieghart* before the First World War. According to *Ausch*<sup>56</sup> in the interwar period *Dr. Josef Joham* and *Rottenberg* owed their appointments as *CA*-managers after the *CA*-crash to the circumstance that they were ‘reliable Christian Socialists’. Another example is *Dr. Ernst Mosing*, known as a confidant of the *Dollfuß* government and thus appointed president of the *Niederösterreichische Escompte-Gesellschaft* in May 1933.<sup>57</sup> *Mosing* also serves as one of many examples that banks used to give board seats to either members of the high state bureaucracy or to former ministers to find political support.

It seems that the *Bodencredit-Anstalt* and especially its president *Sieghart* were masters in using such methods of lobbying: As board members or managers of the *BCA* we found the Privy Councillor *Dr. Karl Leth*, former Governor of the *Austrian Post Office Savings Bank*, the financial councillor of the tax administration, *Dr. Emil Widmer*, or *Dr. Richard Reisch*, a former minister of finance, vice-president of the *BCA* until 1922, then appointed President of the *Austrian National*

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<sup>54</sup> See Dritsas, Eigner, Ottosson (1996).

<sup>55</sup> In this respect the book of *Ausch* (1968), a kind of ‘chronique scandaleuse’ was very useful, as it is full of stories about corrupt bankers, examples of cases of incompatibility and so on.

<sup>56</sup> *Ausch* (1968: 379).

<sup>57</sup> *Wiener Tag* 4. 5. 1933, 10.

*Bank*.<sup>58</sup> Especially the figure of *Reisch* serves as example for a whole set of incompatibilities. In addition to his salary in the *National Bank* he drew an annual pension of the *BCA* and in spite of his new job he had kept important functions on the boards of *BCA*-concern companies.<sup>59</sup> With this net of confidants behind him, *Sieghart* pursued his expansionist business policy, feeling secure that in case of emergency the Government and the *National Bank* would not let him fall and intervene.<sup>60</sup> At first sight it was a strange alliance between *Sieghart*, a baptized Jew, and the partially anti-capitalist and anti-Semitic Christian Social Party, the party of the petty bourgeoisie and shopkeepers, perhaps held together by their common enemy, the Social Democrats and the 'Red Vienna' (Vienna was governed since 1918/19 by an absolute majority of the Social Democrats). *Sieghart*'s situation must have been schizophrenic in a way, and this impression seems the more justified considering *Sieghart*'s role as one of the financiers of the 'Heimwehr', a paramilitaric non-democratic group.<sup>61</sup> The participation of the *BCA* in the foundation and restructuring of Austrian provincial banks in the 1920s even increased the bank's and *Sieghart*'s involvement into party policy. Again, an almost classic case of schizophrenia, as these provincial banks had been installed by conservative political and economic circles of the Austrian provinces to break the predominance of the 'Red Vienna' as well as that of the 'Viennese Jewish finance capital'.

Austria's banking system after 1945 was relatively clearly divided into so called 'red' and 'black' banks (in the political sense), a wave of privatizations in the last decade has wiped away this segmentation. Its origin lay in the 1920s. Both the *Niederösterreichische Escompte-Gesellschaft* and the *Länderbank* acted officially as bankers of the Social Democratic governed municipality of Vienna and were therefore often discriminated, e. g. as possible participants in mergers.<sup>62</sup>

Finally, the rising influence of anti-Semitism in the interwar period should be mentioned. In both Austrian mass parties, the Social Democrats and the Christian Socialists, anti-capitalistic feelings were popular and both - at differing degrees - were not free from anti-Semitic phrases resulting of the terrible equation of (finance) capitalism with Jewry. The crash of the *Credit-Anstalt*

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<sup>58</sup> Again, the list of examples of bankers gaining strategic and influential positions outside the financial sector is long: Dr. Wilhelm Rosenberg, one of the leading executives of the Anglobank, was the economic consultant of the Minister of Finance Dr. Alfred Gürtler. Dr. Gottwald Kunwald was often characterized as the 'grey eminence' behind Chancellor Seipel.

<sup>59</sup> Ausch (1968: 323).

<sup>60</sup> Weber (1991a: 484).

<sup>61</sup> By the way, *Sieghart* was not alone in this respect. The Heimwehr found a lot of financial assistance among Austrian industrialists and bankers, so from the Hauptverband der Industrie Österreichs.

<sup>62</sup> Matthes (1979: 114).

was accompanied by a campaign against the Jewish managers of the bank. What seems to have been most important for the next general manager was to be not of Jewish origin.<sup>63</sup> While the German influence on the Austrian interwar-economy in general was for a long time overestimated, two giants among Austria's large-scale industry, the *Alpine Montangesellschaft*, since 1926 controlled by the German *Vereinigte Stahlwerke AG*, and the *Österreichische Siemens-Schuckert-Werke* served as outposts for National Socialist propaganda. Political pressure – directly from *Hitler* and his state secretary *Keppeler* – was exerted since 1933 on the German-owned *Mercurbank* with the purpose to 'aryanize' its board members and management. These were first hints of what was lying ahead, but the near future was even darker. The Austrian history of the first half of the 20th century is full of political turning points, so is its banking history. The most horrible chapter began with the 'Anschluss', the seizure of power in Austria by National Socialism in 1938.

### *Epilogue*

'Father had been almost thirty years with the Länderbank. This ended officially ... with a curt letter signed by a Herr von der Lippe, one of the many German functionaries who were now the bosses in Austria.'<sup>64</sup>

There must have been many of these 'curt letters', bringing many careers to a brutal and sudden end. In the case of the *CABV* among its managers *Rottenberg* and *Pollak* fell victims to the political and 'racial' clearing; *Pollak* did not survive and died in a concentration camp. Within a few months after the 'Anschluss', significant structural and personal changes had occurred in the ownership of both the industrial and financial complex of former Austria. Among the 18 board members of the *CABV* in October 1938, 15 had joined the board after the 'Anschluss'. Not all new members were German citizens. There was a segment of Austrian industrialists who - if not ardent National Socialists themselves - seemed at least to have arranged with the new elites. The drastic changes in the make-up of the banks' boards had consequences for the compositions of industrial directorates.<sup>65</sup> The ongoing 75 industrial companies, that had belonged to pre-'Anschluss' 'Big Business', were

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<sup>63</sup> Spitzmüller (1955: 358, 362).

<sup>64</sup> Clare (1990: 198). Clare is wrong in one aspect; von der Lippe was not German, but Austrian. Clare, born Georg Klaar in Vienna, in his novel describes the fate of his family. The last part of the book concentrates on the efforts of the French general manager of the LB, Henry Reuter, to save the lives of the bank's Jewish employees.

examined in the *Compass* volume of 1940. In only 12 companies was there continuity in the tenure of presidencies of the boards. In 50 companies, presidents, vice-presidents, managing board members and general managers had all been replaced; in only four companies all these top positions had remained unchanged.

There were different forms of getting control over former Austrian property, mostly combining political pressure with financial acquisition:

- 1) the process of ‘Germanization’ of Austrian banks. Especially the strategic position of the *Credit-Anstalt* in the Austrian corporate economy with its influence on the most important Austrian industrial enterprises had been helpful and enabled the swift economic ‘Germanization’ of Austria.<sup>66</sup>
- 2) the integration of industrial enterprises into German combines. E. g., the German chemistry combine *IG Farben* acquired the share majorities of the most important Austrian chemical and explosives enterprises, of the *Pulverfabrik Skodawerke-Wetzler*, the *Österreichische Dynamit Nobel AG*, the *Carbidwerk Deutsch-Matrei*, the *Enzesfelder Metallwerke AG*, the *Österreichische Kunstdünger-, Schwefelsäure- und chemische Fabrik*, the *Continental, Gesellschaft für angewandte Elektrizität*, the *Anilinchemie AG* and of *Wagenmann, Seybel & Co.*<sup>67</sup>
- 3) the ‘Aryanization’ of Jewish-owned companies like the department store *Gerngroß AG*, the *Hirtenberger Munitionsfabrik*, the brewery *Kuffner AG*, the *Montana AG*, *Bunzl & Biach*, *Ankerbrot* or the shoe-producer *Delka*.

The result was a new network of relations, dominated by German bankers and industrialists, the representatives of the *Deutsche* and *Dresdner Bank*, the *Hermann Göring-Reichswerke AG* or the *IG Farben*, though there were also Austrian key figures in that new business network. This was only the beginning, the Nazis aimed strategically with the take-over of Austrian banks at the traditionally strong role of the Austrians in the economies of the other successor states. The penetration of the Austrian economy has thus to be regarded as a first step only of widening the National Socialists’ sphere of influence into the rest of Central and South-east Europe.

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<sup>65</sup> For further details see Dritsas, Eigner, Ottosson (1996: 188).

<sup>66</sup> See Matis and Weber (1992: 109-26).

<sup>67</sup> Matis and Weber (1992: 119-20); Wittek-Saltzberg (1970: 186-92).

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