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Loans and Credits – Delving Deeply into History*

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György Kövér – Ágnes Pogány – Boglárka Weisz (*eds*)*:*
Magyar Gazdaságtörténeti Évkönyv 2017–2018. Hitel – Bank – Piac (*The Yearbook of the Hungarian Economic History 2017–2018. Credit – Bank – Market*)
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"Every beginning is difficult. And it gets even more difficult from there on..." so goes the saying attributed to FIFA President Sir Stanley Rous, among others. This is also why it is a great achievement that the second issue of the Yearbook of the Hungarian Economic History launched in 2016 has at last reached the stores this year, thereby definitively responding to the most important requirement of a periodical publication, i.e. the requirement of regular publishing. The Yearbook is not the first attempt in Hungary to establish a journal of economic history: at the turn of the 19th and 20th centuries, the Hungarian Economic History Review, which was among the first of its kind in Europe, appeared for more than a decade. The Review tended to mean agriculture by economy, and focused on the agricultural sector. At the time of its suppression in 1906, nobody would have thought that 110 years would go by before the success of a similar endeavour.

The first issue of the Yearbook provided insight into the less researched history of crises and trade, starting from the great famine of the 14th century to the financial crises of the 20th century, and from trade in the Arpadian age to private trade in the socialist era.[1] This year's issue undertook a similarly challenging task: to examine lending practices before and after, but in parallel with the evolution of the modern financial institution system, bringing together researchers dedicated to the history of the Middle Ages, the early modern period and the 19th and 20th centuries. The objective of the editors is to give a better insight into the relation between traditional and modern financial systems, and into the network of credit systems behind the institutions by including research papers that examine different eras.

* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

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[1] György Kövér – Ágnes Pogány – Boglárka Weisz (eds): *The Yearbook of the Hungarian Economic History 2016. Crisis – Trade*. Budapest, 2016.

The volume includes 14 papers from 15 authors in strict chronological order from the 14th century lending practices of the Teutonic Order up to the management of the financial crisis in Hungary in the 1930s. The papers may be grouped around four major topics: lending practices before the evolution of credit institutions; alternative lending arrangements used besides credit institutions; the various levels of the financial institution system and their operation; and papers that are not directly linked to lending, but examine the history of markets.

Lending before institutionalisation

Four papers fall into this category. Some examine state financial affairs, while others look at private financial issues, covering a period from the 14th century to the turn of the 18th and 19th centuries. From a chronological point of view, the first place needs to be given to the paper by *László Pósán* with the title: *Loan transactions and lending practices in the State of the Teutonic Order of Prussia.* After outlining the Christian position with its principal prohibition of charging interest on a loan and presenting the less restrictive German legal practices determined by the growing needs for cash, the paper demonstrates the highly diverse lending practice of the Order. Both the range of borrowers and the purposes of lending are highly varied, extending from small loans granted to private individuals for social or political purposes to loans granted to Prussian towns and foreign merchants for business purposes and to loans offered to foreign princes in the pursuit of diplomatic interests. Loan arrangements circumventing the prohibition of charging interest on a loan are a particularly valuable part of the paper, as well as the presentation of annuity purchasing, arrangements disguised as money exchanges or mortgage lending. Two other papers examine mortgage lending.

János Incze (*The pledging practice of Sigismund of Luxembourg in Hungary*) provides a detailed presentation of the contractual arrangements applied at the beginning of the 15th century, the reasons and procedure of a pledge, and the methods by which pledged estates can be transferred by means of inheritance or redeemed. His key conclusion is that there existed no common practice followed by Sigismund, and contracts contained a number of individual clauses. The fate of pledged estates also varied: Sigismund himself rarely redeemed them through loan repayment, it was much more common for him to give this opportunity to others, or he donated the pledged estates, but it also occurred that the estate remained in the use of the lender – or their successors – for a very long period, such as the Zips Region that was in pledge by the Polish king even after 360 years from the time it was pledged in 1412. The contractual terms of the pledge did not change fundamentally over this period of almost four centuries.

We can see this from another paper by *Krisztián Kovács* examining Nógrád County pledge and leasing contracts from the 17th–19th centuries. *“Forced by our* *imperative distress…"* as the title reads, making reference to the fact that justifying the pledge was an essential element of a pledge agreement. The author establishes that the landed nobility did not use pledging and leasing solely or even principally to finance their consumption. These instruments ultimately served the purpose of an active estate policy through transferring holdings in the periphery and acquiring holdings closer to the estate centre.

The paper by *Attila Tózsa-Rigó* (*The big survivors. The lending activity of the Paller-Weis company* (*1569–1582*) *and the copper business in Besztercebánya*) provides insight into the lending practice of the 16th-century Southern German merchants. The author analyses the profitability of the copper business in Hungary as a guarantee of the survival of the trading company. At the same time, he also points out the constraints that merchants financing the Habsburg Empire faced in the interdependence of unequal partners. We can learn about alternative techniques of loan repayment, arrangements which are not at all risk-free for the lender, such as individual trade conditions and duty rates, which, in this case, had a significant impact on the world market for a product, i.e. copper.

Alternative lending arrangements in parallel with financial institutions

The emergence of financial and credit institutions by no means implied the immediate marginalisation of traditional arrangements. The presence of merchant-bankers was significant even at the beginning of the 20th century, both in Hungary and on the international financial markets. Lenders, such as towns, foundations and families were also essential parts of the credit systems in the 19th century. An example of the latter is provided in the paper by *Szabolcs Somorjai* and *Adrienn Szilágyi* (*The financial opportunities of the Harruckern heirs. Kinship loans in the first half of the 19th century*). Through the duality of the operation of the presented family credit fund – the application of market rates, but lending exclusively to family members – the pair of authors points out that it is all about correcting the ineffectiveness of the credit market whilst interest is not the sole or even the most important factor. Accessibility and minimisation of the transaction costs arising from the lack of trust were the most important factors in the maintenance of the family fund over half a century. We can see similar motifs behind the loans provided in the town of Szombathely by town and by its local funds analysed by *Imre Halász* (*"At six per cent interest". Data on the lending activity of the Episcopal market town of Szombathely in the years of Neo-absolutism*). Similarly to the budget of the Harruckern heirs, these funds provided credits with a view to investing the residual income from their core activity, while they did not collect any funds. These funds operated with separate accounting but under the supervision of the town. Their clientele comprised local individuals and the town itself.

Károly Halmos endeavours to give a picture of commercial credit relationships when they break down, i.e. at the moment of bankruptcy. His paper titled *The paths of* *bills of exchange based on the 1869 bankruptcy cases* shows in detail, with the aid of examples, the functioning of the bill of exchange, the operation of the bankruptcy procedure, the economic background of the credit crunch, and some typical business management-related causes of failures. The intervention of the state via the bankruptcy court creates documents on the functioning of those economic micro processes that we have too little sources about. Therefore, the author draws the attention to the value of a bankruptcy file as a historical data source.

Operation of the financial institutional system

Banks as creditors already appeared in the bankruptcy files of Károly Halmos. In the next three papers, however, they play the key role. *Róbert Bagdi* (*The annual closing accounts of banks and savings banks of Kecskemét in the era of Dualism*) draws attention to a less often analysed segment of the banking sector, the rural savings cooperatives, and in addition, in a specific situation since they are based in a town belonging to the catchment area of the financial institutions of the capital. Based on balance sheet data, he compares the financial institutions of Kecskemét to national and county averages and to other big towns in the Great Plain region.

We can see banks expressly as creditors and railway financers in the paper by *Csaba Gidó* (*The Dreamer of the Sekler Railway. Gábor Ugron and the local railway line between Héjjasfalva* and *Székelyudvarhely*). The author wrote an important case study on the leading industrial sector at the end of the 19th century. His analysis reveals that even in this profitable enterprise, not all participants are winners. The main beneficiaries of success take out their profit through the entwined relationship between their roles (assignee, member of the board of directors, creditor, subcontractor and supplier), while the main contractor carrying out the effective work fail. Banks within the sphere of interest of some managers of the railway company are important channel for profit-taking, through lending at a higher rate than the rate on the market.

The paper by *György Kövér* titled *The Rothschild consortium and the debt of the Austro-Hungarian Monarchy* also looks at banks, but guides us into the world of public finances. Public finances are usually examined from the side of states, however, the author points out that in the case of financing the debt of the Monarchy, both the domestic and the international markets were significantly impacted by a non-state actor, the intermediary Rothschild banking group with its international embeddedness, prestige and credibility. The schedule of the degree of indebtedness of the two states of the empire show a high consistency. This is much more attributable to the coordination activity of the Rothschilds than to consultations between the financial governments. According to the author, the significance of the Rothschilds in the consolidation of the debts of Austria and Hungary is undisputable.

Public finances and consolidation are also the subject of the paper of *Ágnes Pogány* (*Szentháromság Square versions of fiscal crisis. The management of the budget crisis in the first half of the 1930s*). The assessment as to what constitutes a critical level of the debt ratio and budgetary deficit differed in every era. From this aspect, the period between the two world wars was very strict: it was considered that a budget deficit had to be eliminated at all cost, irrespective of its size. Through the main revenues and expenditures of the budget, the paper shows what factors led to the fiscal crisis and how subsequent governments tried to manage it. An important lesson is that it was a careful balancing of the recommendations of the League of Nations mainly reflecting the interests of the creditor, the fiscal restriction and the state economic stimulus – which was also largely implemented through lending activity – that finally brought a result.

Market history studies

The volume also includes three papers that are not closely related to lending. These are mainly linked by the demonstration of the functioning of the commodity market. In his work titled *Administration and management of the Dominium of Huszt under the jurisdiction of the Szepes Chamber* (*1600–1604, 1614–1615*), *László Glück* points out how a castle estate operated in Hungary at the beginning of the 17th century, in a time of monetary tightness. The participation of the manor in trading remained negligible despite the fact that it operated a complex agricultural holding.

Tamás Csíki (*Market and black market in the rural society during the First World War*) shows the opposite extreme, the mechanisms in the period of commodity shortage, examining a period two hundred years later. State regulations on prices and forced sales hampered market relations, however, the market created its way, resulting not only in the emergence of black market trading and bartering, but also changes the structure of production.

The role that prices play in regulating the market also appears in the paper of *Antal Szántay* (*Prices in 18th century Hungary*). After a short review of the professional literature on price history, he provides insight into the typical sources of the era, and calls for a comprehensive, systematic research on prices in the early modern period.

On the whole, the volume responds to the objective of the editors: it includes interesting and valuable "deep delvings" into all of the various participants involved in the world of credit, from the Middle Ages to the early modern period and to the middle of the 20th century; and it may thus mark an important stage in fundamental research aimed at creating the missing synthesis of the history of credit. Readers, whether they are economists, historians or they just show interest in economic history will definitely obtain a deeper understanding of the centuries-old development of lending, while they will also find many things of historical interest they maybe did not look for, but will certainly enjoy reading.