

„k.k. oktroyierte Kommerzial-, Leih und Wechsel BAnk“ : “Chartered Commercial Loan and Exchange Bank”. An Entreprise in the HAbsburg Monarchy in the Period of Transition, 1787-1830

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Introduction

The state of economic development of the Habsburg Monarchy during the nineteenth century is generally regarded as ”backward“ - following the typology by A. Gerschenkron - compared to other European countries such as Great Britain, France and Germany.¹ His theory of a ”relative backwardness“ thus reflects the processes and dynamics of economic development. H. Freudenberger recently argued in a similar way. His latest book on the period between 1750-1830 investigates the ”lost momentum“ and thus the question of the structural reasons for the ”backwardness“ of the Habsburg Monarchy.²

A special feature of the industrial development in the Habsburg Monarchy, which has been stressed by numerous historians such as James van Horn Melton, Richard Rudolph or Mikuláš Teich relates to the involvement of the aristocracy, in particular in the Kingdom of Bohemia, in the establishment of manufacturing and later industrial enterprises. Thus, noble entrepreneurs may have played an important role for industrial development. This opinion contrasts with other general approaches, which hold that landholding nobles rarely took part in industrial economic activities. Until now, we lack studies which would analyze the connection between particular enterprises and the role of the aristocracy or the bourgeoisie.

In the following, the paper will investigate opinions that the aristocracy did not take part in industrial economic decisions, because it lacked qualifications and interest in these sorts of economic activities by means of the example of the “Chartered Commercial Loan and Exchange Bank” (“k.k. oktroyierten Wiener Kommerzial-, Leih- und Wechselbank“). In this sense, the social background of the involved people is of particular importance and shall be

¹ Alexander GERSCHENKRON, *Economic Backwardness in historical Perspective. A Book of Essays*. Cambridge, Mass., 1966. Besonders das Kapitel: Social Attitudes, Entrepreneurship, and economic Development, 52–71.

² vgl. z.B. FREUDENBERGER, *Momentum*, wie Anm. 3, z.B. 50-53, 109-111, konkrete Beispiele: 207–248, Arnošt KLÍMA, *Manufakturní období v Čechách [Die Manufakturperiode in Böhmen]*. Praha 1955, 217ff, 349f, 221ff, 231, 320ff; Milan Myška, *Der Adel der böhmischen Länder. Seine wirtschaftliche Basis und ihre Entwicklung*, in: Armgard von Redern-Dohna/Ralph Melville, *Der Adel an der Schwelle des bürgerlichen Zeitalters 1780-1860*. Stuttgart 1988, 169–189, 173, 181–184.

contextualized with the background of the reforms of enlightened absolutism under Emperor Joseph II. It will be analyzed whether noblemen only followed their own economic interests and profit in this respect.

Bank on the background of the research

This institution, which I must refer as “Schwarzenberg Bank”, according to H. Freudenberger is the first private banking institution in the Habsburg monarchy at all, was founded in 1787 by the Joseph II, and which was limited to 25 years (it means, that the institution was owned by main directors). This was an enterprise whose significance for the business history and the process of industrialisation of the Habsburg monarchy has hardly been examined. This was despite the fact that research debates of the end of 19th and beginning 20th century on the history of banks show that historians were aware of their existence and recognised their particular character as enterprises.

It is a micro study of the bank which can be regarded as an important mirror of economic activities and commercial trade links but also social processes. At the same time this can be used for a new approach on the macro level.

The development into a private bank that is in to private enterprise was not defined as such in the founding year 1787, even though in the first bank privilege from this very year there was a clear-cut separation of business activities of the bank and state finances. The actual declaration of the banking house as a private enterprise occurred not until the renewal of the privilege and its regulation in the year 1792, when the owner’s board of directors committed themselves to personal responsibility for capitals rendered for bank bonds. I shall return to the significance of this decision later.

The content of particular parts of the the bank charter shows concern that the state’s financial policy could harm the business stability of the newly privileged institutions. This reflects the experiences financial institutes or private sponsors – e.g. the case Oppenheimer – had hitherto made with the state. On the other hand it demonstrates the need for a reformed organisation of financial affairs in the Habsburg monarchy, an idea/proposition the state (Joseph II and Leopold I) openly embraced at the time. Another novelty in this financial institute was the fact that this was not a bourgeois, urban or family enterprise but an aristocratic one.

A connection between the Austrian mercantilist-cameralistic concepts of enlightenment and the economic developments was deemed desirable by some contemporary proponents such as the Bohemian aristocrat Franz Hartig, the future president of the Royal Bohemian Society of the Sciences. Now, it is quite obvious that the economic activities of the aristocracy borne by the ideas of enlightenment and inspired by some experiences in i.e. the U.K., were confronted with the reality of the agrarian system in the Habsburg monarchy, especially with the “second serfdom” in Bohemia. In the literature the growing mercantilist interests of the Bohemian aristocracy were often addressed.

Relation between agrarian system – subjects and economic activity of the noble lords, some short remarks

In this context we must ask what it meant in our case when the bank was first co-founded and then, after a financial scandal involving a bourgeois senior co-director, continued by three Bohemian aristocrats. They were among the wealthiest aristocrats in the Habsburg monarchy (Schwarzenberg was by far the richest and politically most influential member of the owner’s board of directors; among the top ten). All three of them owned estates in Bohemia and Austria. The first area is in research discourse associated with the manorial system of “second serfdom”

The noble landowners enjoyed a steady influx in income in the form of tenants’ rents until serfdom was officially abolished in 1781. The agrarian reforms defined a maximum limit of revenue which landowner’s could take from their subjects.

From a theoretical view the mentioned reforms could entail as a consequence a revision of thinking in regard to the aristocrats' economic activities and lead to increased efforts to create jobs for their subjects in order to keep at a minimum rate labour migration from the estates. The definition of the income limit to be drawn from the estates could lead to an increased involvement in manufacture and factories which might produce a rise in the feudal income (e.g. Kinsky). In the literature the participation of the Bohemian aristocrats in the scientific debates and the industrial sector is usually emphasised.

Structure of the senior bank and role of the owner’s board

The bank was divided into two administrative structures – board of the owners and executive directors. In the turbulent beginning years the owner's board consisted of Schwarzenberg, Colloredo-Mannsfeld, Nostiz. Another especially in the beginning years important person - the Danish merchant Bargum, to whom the financial institution was privileged have had a special position to which I might refer below. He was then an established wholesaler in Vienna, deemed by some, "the greatest tradesman at the time". He was the one "who had gained great commercial know-how in the empire and in the larger trading areas". As an economic pundit he was commended to Colloredo-Mannsfeld whom he convinced of the notion that "it would be for the honour and great benefit of the Austrian state to found a banking institute under the protection of wealthy cavaliers". As is evidenced by the bank's foundation, he actually succeeded in convincing Colloredo-Mannsfeld and shortly afterwards also Schwarzenberg and Nostiz for this venture. They were willing to join him as bank directors and main shareholders as well as entrust Bargum with the bank management. It is beyond doubt that the involvement of these very wealthy and influential members of the aristocracy was the right strategy finally to accomplish the granting of the bank privilege Bargum had strived for ever since 1786.

Bourgeois and noble entrepreneurs: partners?

The Partners Joseph zu Schwarzenberg, Franz Gundaker Colloredo-Mannsfeld und Friedrich von Nostitz Rhinek as well as Josef Wrtyby, who joined later were not mentioned by their names in the bank's privileges until the financial scandal caused by Bargum and when the privilege was renewed in 1792, although all of them were ready to join the board of owners.

With respect to Bargum's role, a closer analysis of the regulations is helpful. Some paragraphs make clear that Bargum was neither a member of the board of owners nor of the executive directors. As the source of ideas and strategies, he was external to these levels of administration. The regulations state in this context: The society "(...) does not only guarantee in the same manner as the board of owners and the executive board, but the also cooperate to finance the operating costs and the buildings of the bank from their own means" until the bank could carry these costs and could repay this support.³ In addition, he, as an owner of the

³ SOA Český Krumlov, RA, Konvention, Art. 40, pag.11, nicht inv.

privilege, asked for a share of fifty per cent of the operating profit instead of any compensation or wage for his work. With respect to decisions, Bargum wanted to be the first "leader" of the bank throughout its existence and wanted to "head the executive board carrying one vote".⁴ He wanted to participate in the meetings of the board of owners "ad deliberandum", but without the right to vote.⁵

The aim to separate his own functions from those of the other stakeholders was most likely that Bargum intended to strongly shape the bank's business from the beginning. Based on his position, he had optimal access to all information and agents which would influence the business. From the Deliberationsprotokolle⁶ we can also see that mostly he alone informed the board of owners about the bank's development, its position on the financial market, possible expansion etc. He was also responsible for negotiations with customers and agents of the bank and was given quite some independence by the board of owners. It is likely that he did not expect the noble members of the board of owners to be more closely involvement in running the bank because of their other responsibilities. They were owners of large landlord estates and simultaneously held offices at the imperial court.⁷

This state of affairs did not last very long, because the board of owners wanted to have greater responsibility for decisions - presumably because of the growth of the business. From 1789 the executive board - and Bargum with it - could not make any significant decision without the consent of the board of owners.⁸

There were no changes in the composition of the senior board until 1792. In this year a new privilege was granted, albeit this time in the name of the aristocratic senior directors whose ranks were joined by another Bohemian aristocrat. In fact, however, the old, first senior board only lasted until 1790, when it come out that one of the main actors - Bargum - together with his accountant had kept "untidy records" und issued falsified documents. All in all they deprived the bank of some 200.000 guilders, a thoroughly substantial amount considering that around 1780 the annual income of the hundred richest aristocratic families of the Habsburg

⁴ SOA Český Krumlov, RA, Konvention, Art. 42, nicht inv., pag.12.

⁵ SOA Český Krumlov, RA, Konvention, Art. 42, pag.12, nicht inv.

⁶ Es handelt sich um Sitzungsprotokolle der Oberdirektion. SOA Český Krumlov, Fond Ústřední pokladna Schwarzenberské panství (weiter ÚP), nicht inv.

⁷ Bereits im Ehevertrag von 1771 sind beim Franz Gundaker Colloredo die Funktionen des kaiserlicher Kamerers und des Botschafters am spanischen Hof angeführt. SOA Zámorsk, Rodinný archiv, Colloredo-Mannsfeld, Kart. 29, Ehevertrag zwischen Franz Gundaker Colloredo und Maria Gabriela geborene Reichsgräfin von Stahremberg, abgeschlossen am 3.1.1771.

monarchy varied between 50.000 and 100.000 guilders (according to an estimate of the Schwarzenberg manors were worth 9 million guilders).

In the following, I would like to illustrate some of the different attitudes and expectations with reference to the bank's business. In the beginning, the bank's business developed extremely well. Already in May 1788, a month ahead of the official deadline by which the first instalment of the shares would have to be paid, the bank had subscriptions of 500,000 gulden. This sum represented half of the share stock that was up for sale. This gave cause for optimism among the directors and especially Bargum. Based on this success, the next step to establishing individual operating areas of the bank was taken: the development of Bank bonds (Bankobligationen). It should be announced that the bank accepted capital against bills of exchange?

The board of owners should have decided when and how this announcement was going to take place. Already in this case, however, the board was not consulted whether it agreed. The members were not quite convinced by Bargum's optimistic news.⁹ They were more defensive and suggested that the bank should wait for the further development of the share subscription.

In general, it had to be decided, which operations the bank should concentrate on and for which the privilege was valid. Bargum suggested to develop a plan with operations in the following areas: cash advances for the silk trade, discount (=Zinsvergütung) of bills of exchange, trade with bonds of secure interest, accepting goods in exchange of bills of exchange and some other areas with little risk which would correspond to the bank's regulations. These operations should be accepted for the time the bank was "going to operate in small scale".¹⁰ According to this plan, the bank's profit net of all expenses should reach 50,000 gulden by the end of the eight year.

In the first phase, he expected a limited enterprise. Based on a remark, we can assume that he wanted to redefine the business areas and the enterprise during the phase of expansion. The board of owners did not want to definitely accept Bargum's plan. It agreed that a business plan should be developed, but it did not want to engage in all the operations that were listed

⁸ SOA Český Krumlov, ÚP, Deliberationsprotokolle, 12.3.1789, pag.69.

⁹ SOA Třeboň, pobočka zámek Český Krumlov, ÚP, Deliberationsprotokolle, 9.5.1788, pag.20.

¹⁰ SOA Třeboň, pobočka zámek Český Krumlov, ÚP, Deliberationsprotokolle, 12.5.1788, pag.23.

by Bargum.¹¹ They preferred to wait which of the initial businesses developed to what extent and wanted to develop new operations on this basis.

Whether Bargum founded the bank already with a plan of fraud cannot be proved. One passage of the regulations could actually be regarded as contrary evidence, as this settled the claims of his sons.¹² After they were grown up, they should be granted the right to participate in the meetings. It was meant to familiarize them with the procedures of the bank in order to use their competence for the bank later on.¹³ It would be possible that the shifts in the bank's management between the board of owners and Bargum, which were described above, led Bargum to push the bank into a financial scandal and to rip the bank of the considerable sum of 200,000 gulden.¹⁴ First, however, it is important to deal with the legal framework and the business's regulations, because they give some information on how responsibilities and influences were shared in the bank

Privilege and regulations of 1787: a comparison

In contrast to the 1787 privilege, the noble stakeholders were mentioned by name in the regulations and the bank's convention (= agreement between the noblemen and Bargum) and they signed both documents together with Bargum. All were obliged to follow the bank's politics. Both documents received the Emperor's consent.¹⁵ The aristocrats were mentioned as members of the board of owners and as main shareholders. Bargum received a different title as main shareholder and contract partner.

Both documents settled to area of the board of owners' influence. The 1787 regulations stated that the board of owners were responsible - together with the executive board - to guarantee the adequate securities for estimates and insurances.¹⁶ Articles 10 and 15 defined the obligations of clients. They had to bear the costs for the administration necessary to grant credit and mortgages. The symbolic function of the noble stakeholders is evident as they were responsible for storing and safeguarding the documents and charters mentioned above. Apart

¹¹ SOA Třeboň, pobočka zámek Český Krumlov, ÚP, Deliberationsprotokolle, 12.5.1788, pag.23.

¹² Offen ist dabei die Frage, warum Bargum die Bank auf eine Firma seiner minderjährigen Söhne (Carl und Friedrich Bargum et Co) privilegierte.

¹³ SOA Český Krumlov, RA, Konvention, Art. 46, pag.12-13, nicht inv.

¹⁴ SOA Český Krumlov, RA, F.p.ü., Fasz. 260, nicht paginiert.

¹⁵ SOA Český Krumlov, RA, Reglement 1787, pag. 12, nicht inv; SOA Český Krumlov, RA, Konvention, pag.15, nicht inv.

¹⁶ SOA Český Krumlov, RA, Reglement 1787, Art.9 c, pag.3, nicht inv.

from these points, no other relevant responsibilities for decisions and for business operations were defined.¹⁷ Corresponding to the 1787 privilege all main participants were not liable for the bank operations, apart from the stocks they owned. This was changed in the new privilege of 1792.

Regarding the issuing of shares certain securities for clients and the bank were considered. These products had to be signed by two members of the board of owners and three members of the executive board. With reference to bank bills of exchange, certificates and legalizing documents the signature of one of the members of the board of owners was regarded sufficient. For the same actions, however, it would need the signature of three members of the executive board.¹⁸ I think this illustrates the difference in weight between these two boards.

The regulations described the responsibilities of both boards in greater detail. The three members of the board of owners were granted the right - in the name of all shareholders - to sign contracts with Bargum & Co. In this context, the altruism of the noble stakeholders was emphasized, which became convinced of Bargum's plans in order to contribute to improve the general welfare.¹⁹ Up to this point there existed no comparable bank institution in the Habsburg Monarchy with the privilege to conduct business in so many different areas. The board of owners had the right, individually as well as a board, to control the bank's business and books whenever they wanted and to demand answers to any of their queries. For this reason, the executive board had to send daily reports and extracts from the deals concluded.²⁰

Article 47 regulated a potential expansion of the bank. Without the consent of the board of owners, Bargum & Co. was not allowed to establish any other banks within the Habsburg Monarchy. Would this happen, the different institutions would not cooperate or secure each other, but were only supposed to help each other "if this was necessary for remittances and payments".²¹ Expansion was made dependent on the prior condition that the new business operations were safe.

¹⁷ SOA Český Krumlov, RA, Reglement 1787, Art. 10, pag.3-4 und Art. 15, pag.5, nicht inv.

¹⁸ SOA Český Krumlov, RA, Reglement 1787, Art.39, pag.11, nicht inv.

¹⁹ SOA Český Krumlov, RA, Konvention, Art. 15, pag.6, nicht inv.

²⁰ SOA Český Krumlov, RA, Konvention, Art. 22, pag.7, nicht inv.

²¹ SOA Český Krumlov, RA, Konvention, Art. 47, pag.12, nicht inv.

Despite the fact that there was a clear designation of responsibilities, inner control mechanisms failed during the initial phase of the bank's existence. This resulted in the financial fraud mentioned above.

After the scandal

When the scandal was uncovered the banking institute slid into an existential crisis. The decision had to be made whether to continue business and, according to the respective decision, apply for renewal of the privilege. This decision was left to Schwarzenberg on account of his pronounced social standing, since without him and his reputation, the other aristocrats argued, the banking business would not be successful.

Even though the aristocratic bank directors "sought to prove their benevolent patriotism in a splendid manner of display" this kind of business was not directly connected with social prestige in the founding years, nor was it a matter of fact. This can be seen from a letter by the manorial administrator (Privy Councillor Leopold Plach von Seisberg) of 1790, who in the context of Bargum's financial fraud writes to Schwarzenberg that "according to His Excellence B. Martini (...) this case [i.e. the fraud] can repeat itself and the entire banking business were not entirely accordant with the royal dignity and would distract [discredit] Your Highness too much". This formulation makes clear that the potential risk of another fraud could still not be ruled out. This comes as a bit of a surprise which leads us to think about the fact why there should be less danger of fraud employing administrative structure and personnel of aristocratic estates than that of financial enterprise? In my opinion this may come from a different understanding of control and administration. The banking institute for the aristocratic participants is to be regarded as a new form of economic activity which in our case went beyond the scope of domestic noble economy, not only in a topographical sense (clients from different countries) but also in its administrative and business structure which required the creation of new forms of organisation. The key issue after the Bargum scandal was, can you trust your employees, in particular executive directors and accountants?

Schwarzenberg decided in continuing at the helm of the enterprise. In a letter to Schwarzenberg's wife 1790 was also stressed that Schwarzenberg perceived the continuation of the banking business as a challenge, he was "not acting because of his obstinacy but because of good reasons".

With the renewal of the privilege the banking house was definitely renamed a private institute and the aristocrats had to accept liability for the bank's business with their private property. This change exposed the senior directors to greater risks on account of the accepted liability and on the other hand “the state should benefit day by day from the bank's existence”.

However, it is obvious that this personal liability was connected with interests to make profit so as not to expose family possessions to a risk. This in turn was meant to increase the customers trust in the bank. Advertised in German newspapers which especially emphasised the role of Josef zu Schwarzenberg in the banking transactions hint at similar intentions. He was prominently placed as one of the bank directors which was not only to be put down to his wealth and social position within the Habsburg aristocracy but should also signal his involvement in the business. The Director's Board as a reliable institution committed itself to sticking to their principles and conducting but secure transactions. The bank was partly a joint-stock company which had a capital of one million Rhine guilders split into 1.000 shares. One share could be acquired for 1.000 Rhine guilders, either in one's own or another, i.e. foreign, name. A time limit of ten years was given for payment of the purchase price which meant that the bank did not have at its disposal the entire share capital straight away. The real share value, according to a report of 1806, lay some 31 per cent above the buying value. The shares at first paid four, later on seven and then even ten per cent interest, paid in dividends.

The owner's and executive board of directors did not participate equally in acquiring shares which on the one hand must be interpreted by their willingness to take risk, on the other hand by their economic perspective. In my opinion, both these factors find expression at the time of share buying – as it listed in some details in the paper. You can also see, that also some aristocratic widows and wives bought shares. Tabelle - Shares

Interestingly perhaps to mention is the fact, that the Schwarzenberg pensions fund was also in the possession of 100 shares since the year 1789 even though it was, as was expressly stressed, in no way connected with the bank itself. Here we encounter a form of capital investment throughout which is not unfamiliar in our day and age.

After the scandal, the aristocratic owners were forced to apply again for a privilege and regulations. These documents were granted in 1792 and were published in several newspapers and languages. There were two aims. First, the bank was separated from the connection with Bargum and his fraud actions. This was important, because he fled with documents and other

important material and it could not be excluded that he carried on with some financial transactions. Secondly, it was necessary to build up new trust for old and potential new clients. In a public move, the bank relied on the moral status of the noble owners and particularly on Johann Schwarzenberg. For this reason, an important change was made: the board of owners would now "voluntarily and for the best of the institute and the public guarantee for the capital invested into bank in form of bank bonds".²² Moreover, the powers of the members of the board of owners were increased. With single majority, they could refute decisions by the executive board.²³ Control mechanisms within the executive board were improved, too. These new regulations already illustrate that there existed shortcomings in the bank's administration which gave Bargum too much independence.

Shareholders and the influence on business policy

Apart from shifts of the responsibilities of the bank management, there were also changes in the business operations which strengthened the board of owners. This can be illustrated by the example of the shareholders.

Paragraph 6 of the 1787 privilege shows that Bargum assumed that shareholders would have some influence on the bank's businesses, because it said: "Furthermore, all participants in the bank shall have the same rights, based on the invested capital, and nobody should be given any special privilege."²⁴ This would indicate that the original plan was to give all shareholders a right to vote. After the fraud 1790, the board of owners only agreed to guarantee a minimum dividend of two per cent for all shareholders. In exchange, they had to do without their right to vote and a control of the bank's books. The idea must have been to limit direct external influence on the bank's business. This could be an example that the aristocrats returned to means of a traditional estate administration, in which mechanisms of decisions and administration were clearly structured and without any external influence. A modern principle could have been that bank employees were now forced to an oath on the bank rather than on the board of owners.²⁵

²² SOA Český Krumlov, RA, F.p.ü., Fasz. 261, Privileg 1792, Art.32, pag.11.

²³ SOA Český Krumlov, RA, F.p.ü., Fasz. 261, Privileg 1792, Art.14, pag.6.

²⁴ SOA Český Krumlov, RA, Privileg 1787, Art. 6, pag.2, nicht inv.

²⁵ Vgl. das Eid des Schätzmeisters: SOA Český Krumlov, ÚP, Deliberationsprotokolle, 20.3.1789, pag.70; Eid des Skontisten: SOA Český Krumlov, ÚP, Deliberationsprotokolle, 17.12.1798, pag.274; Eid des Liquidatoren: SOA Český Krumlov, ÚP, Deliberationsprotokolle, 11.3.1800, pag.275.

Business areas of the bank

a) The aim of founding the bank

Measures to improve external and, above all, internal trade, which should integrate the individual countries and territories of the Habsburg Monarchy more closely in order to best use their economic potential and the support of the industrial sector belonged to the basic principles of mercantilism and Josephinism. Since the late 1770s, the state criticized that it had to use foreign merchants based in Vienna to carry out international trade and if foreign bills of exchange had to be used. Equally, there was nor formal credit market for Vienna entrepreneurs.²⁶

In this context, the establishment of the bank can be regarded as a symbol for the state's efforts to reform the financial sector and secure more support for industrial development. In the first privilege, Joseph II. used Bargum's argument, by explaining the granting of the privilege with the bank's aims. As mentioned above, the aims of the new bank were relatively precisely formulated: The bank should contribute to improving trade and economy in the Hasburg Monarchy.²⁷ Also the second privilege by Emperor Franz II. entitled the bank to give credit not only against the securities of property, but also to entrepreneurs, secured by their goods.²⁸

The hope for the bank's positive influence is also evident with respect to the responsibilities of the executive board. The members should not only consider "what would improve the bank (...) but they should also engage in achievements for the bank and the state."²⁹ Members of the executive board had to pay a bail, before they were hired, just as all other bank employees. An employee, responsible for keeping the accounting records had to pay 1,000 gulden, a member of the executive board between 4,000 and 15,000 gulden. These were high sums compared to the annual wages of these people: i.e. one of the executive directors Braunendal started his employment with 2,000 Gulden per year, excl. peremiums.

²⁶ MICHAEL WAGNER, Zwischen zwei Staatsbankrotten. Der Wiener Finanzmarkt im 18. Jahrhundert. In: Wiener Geschichtsblätter 32 (1977) 113-143, 122-123.

²⁷ SOA Český Krumlov, RA, Privilegium von 1787, pag.1, nicht inv.

²⁸ SOA Český Krumlov, RA, Reglement von 21.6.1793, F.p.ü., Fasz. 261, Art. 63, pag.19.

²⁹ Reglement, § 20, pag.8.

Generally, one can say that the bank engaged in manifold business areas, since according to the privilege of the bank all finance branches of commercial trade were permitted. These included discount and secured loan - which extended to industrial and commercial goods (products, gold, silver, safe negotiable instruments). The bank granted mortgages and savings accounts, respectively equity capital, could also be opened. The bank was interested in small investors, as well. This money could be bound for a short-term - several months - with two weeks period of notice. The minimum amount that could be saved was 50 Rhine guilders. However, it is very hard to find out precisely how many small investors chose to deposit their money. As a rule, larger amounts of more than one thousand up to several thousands of guilders were paid in.

From the example of the banking house Sina it was generalised that transactions in bills of exchange deals did not really become established in the hereditary countries of the Habsburg monarchy and especially in Hungary; however, they seem to have been relatively important for the "Schwarzenberg Bank", since in 1793 two million Rhine guilders of bills of exchanges were discounted, with increasing tendencies (following year these transactions even surpassed amount of three million). Additionally, one should consider relatively small deals with foreign exchange bills. The bank also bought bonds (in the year 1805 for around two million). The scope of the interest of the bought bonds varied between 3,5 and 5 per cent, in the period after 1800 most of them paid 5 per cent interest. Here the bank recorded some losses, in particular with the Treasury bonds.

Naturally, main business interests changed in the course of the period, since the directors had to react to the political-economic developments all over Europe. This becomes evident in a letter of 1798 which demanded that the bank "should think of new branches for business", since "on account of the naturally foreseeable stock and trade discounting of trade bonds, then loans for producers as well as products will lose on a daily basis". Therefore, the suggestion was made to engage in trade in silk and cotton. Especially Italian and French goods were traded and were sold in Bohemia and Hungary for further production, an important impulse in particular for the textile industry during the Napoleonic Wars. The bank also granted loans for the purchase of raw materials. The turnover of the raw silk account amounted to 640.364 Guilders in the year 1799 and two years later it climbed to 1.359.059. In case of a borrower's insolvency the attempt was made to sell at a public auction which resulted in "defamation" with the public. One suspected the bank of having gained a great deal with such auctions at

the expense of its clients. This shows again how sensitively bank business was perceived, especially when it was newly conducted by aristocratic and wealthy private persons and not by established institutions or particular groups. At any rate, the bank's administration sought to answer to such public opinion by publishing the prices obtained during the auctions in the newspaper so that it would become publicly known. Here, too, the endeavour to achieve a certain transparency was the prime intention. The message that should reach the public was evident: the bank does not make profit at the expense of insolvent clients, but it only takes what legally belongs to the bank according to the publicly known terms and conditions of trade.

The political and economic situation during the Napoleonic Wars was the reason, why the boards decided to establish a branch of the bank in Trieste in 1804, equipped with a starting capital of 200,000 gulden. It was meant to specialize in sea trade. For this reason, even eight ships were bought. Also credit to traders in raw materials was given. A first analysis of the branch accounts, however, reveals that it rather added to the burden and the new business did not return the capital invested.

Until now comparisons have not been drawn to other contemporary banks as to be able more clearly to define the importance of the Schwarzenberg Bank within Western and Central Europe. In the initial phase the banking business probably did not develop all that smoothly, since larger sums were deposited in the bank over certain periods of time that did not pay interest and consequently did not yield profit for the bank. The bank definitely held a certain potential, since as early as the end of 1793 its general cash books show an amount of just over 5 million guilders, in the year 1796 seven and 1802 almost 14 million guilders. These results are not yet complete as the annual inflation rates are not taken into account. So far I did not succeed in finding information about this point in the literature available.

b) Markets

The founders intended to gain importance as a financial institute within and outside the Habsburg monarchy. Some concrete activities hint at the attempts persue to this ambitious goal. As already mentioned in a different context, the advertisement e.g. should not only appear in the "Wiener Zeitung" but also "be translated into several languages and sent all over Europe". Especially, there was an information campaign in Germany - e.g. in Erlangen, Frankfurt and Nuremberg - which informed about the founding of the Schwarzenberg Bank.

Thus, signals were sent out that the bank wanted to strike deals with Germany, France and Italy and enable clients to open accounts in London and Amsterdam, as well.

Furthermore, the bank also tried to employ "agents" in different countries that should have to help provide the bank with foreign capital and clients. Thus were e.g. at the Dresden court and one another for Saxony, in Hungary, in Amsterdam. In this context the importance of the Dutch and English markets was stressed.

In a document of 1793 already, however, there frank statement that the size and importance of the Amsterdam and London institutes would remain out of reach. Even so, the same report points out that by founding the bank the state had created an instrument that could be useful in important ventures. This underlines not least the potential importance of the bank within the monarchy.

The bank privilege contained some essential points which can serve as indicators as to the business interests of the institute and its representatives. It was one of the pre-eminent goals to acquire capital and foster investments which required background information about the capital situation in the respective countries of the Habsburg monarchy. This was connected to the efforts on the part of the government of enlightened absolutism, as described by Gustav Otruba, to create a unified economic area in which the economic potential of each country was to be put to more efficient use.

The economic and political situation in the respective countries of the Habsburg monarchy was truly heterogenous and involved a varying degree of risks. Thus, after having enquired about the situation, they determined that business with Hungary, Transylvania and Galicia entailed high risks. Consequently, bonds here with two guilders each paid more interest than bonds in Bohemia or Lower Austria, where interest lay at one guilder. The Charter also determined a differentiated interest rate on loans: in the western lands loans should pay 4%, in Hungary, Galicia and Transylvania five 5%. Interestingly enough, this enquiry into the economic conditions on the Balkans did not play a role for the bank. At any rate, one cannot find references to investment in manufactures in this area (in 1803 a branch was founded in Trieste which specialised in trade with the Mediterranean but also American traders - import of raw materials).

Among the big investments in the industrial field which the bank made one must name:

- a) the Wr. Neustadt sugar refinery which had debts of around 440.000 guilders with the bank in 1800.
- b) The largest known bank involvement is connected to the cloth factory of Johann Tost in Jihlava. The investment sum here amounted to one million Rhine guilders, on loan from the Imperial War Chamber for the purchase of raw material, since the chamber had signed a ten year contract with this cloth factory on army provision. The bank was contacted for this project by Tost et Compagnie as the Imperial War Chamber needed a guarantor of money for the sum paid in advance. The manufacture was not successful economically which led to debts of around 1,8 million guilders with the bank.
- c) The bank facilitated payment of capital for further enterprises such as the china manufacture in Náchod.
- d) H. Feudenberger also speaks of its essential contribution to the founding of the well-known Pottendorf yarn manufacture. The accounting books for the year 1802 deliver concrete information. In this year the bank paid around 70.000 guilders to the Englishman John Thornton which were probably used for the purchase of spare parts and the construction of spinning machines for the factory . Die Bank investierte ein Kapital, dass ca. 40 % des Startkapitals dieses Unternehmens ausmachte.
- e) The bank also participated as sponsor in the cotton manufactory in Ebreichsdorf in Lower Austria. According to the general ledger loans of almost 420.000 guilders were granted to this company until the end of 1811, with a decreasing tendency in the following years.
- f) A large financial support was also granted to the textile entrepreneur Jakob Lang in Telc. In 1811 his liabilities with the bank amounted to nearly 400.000 guilders.
- g) The silk factory of Pazziazi in Vienna was also substantially supported by the bank.

From the files and e.g. in regard to the Pottendorf manufacture or Pazziazi's silk factory it becomes evident that the bank supported innovations in production technology. In some cases the bank provided the start capital. These were not always loans granted to already established firms. Newly founded trade corporations were also supported – selling oxen in Italy or selling Hungarian wines to Russia. These examples serve to illustrate the bank's investment activities. There are further accounts in the name of well-known aristocratic families or bourgeois trade firms which show higher amounts. The purpose of these loans could not yet be established in these cases.

These data prove the continuation of innovative economic activities by “Bohemian” aristocrats in the field of investments in small trade and manufacturing since 1750.

The bank followed a strict strategy of giving credit to a large number of entrepreneurs. It also engaged in more traditional areas if trade. This was done even though it was criticized by some employees that trade was not worthy as a bank business.

Taking Risk

The bank directors were obviously not willing enough to take the risk of participating in all profitable forms of the capital market. An employee from Trieste was criticised in 1807 for transactions with bills of exchange on speculative basis, he himself had become rich. The bank, however, rejected this sort of business. Perhaps so, since for certain circles in Vienna this sort of business was inopportune, whereas the man from Trieste pointed out that “it is widely known that Triestinians have more speculative spirit than the Viennese are wont to have for their rage”.

Likewise, the bank did not seize every opportunity of a prospective deal if certain discrepancies in opinion existed between them and a potential client. In 1793, for instance, negotiations took place with Count Fugger, who obviously did not make a good impression as a businessman with bank representatives. The estate administrator Leopold Plach von Seisberg reports that he did not like the count’s demeanour. “First he acted all smooth and spoke only of bartering, now he already wants 250 in capital”. Even though the research work has not yet been completed, it remains very likely that this particular deal between the bank and Fugger did not materialise.

Similarly, everybody who applied for larger, especially investment, capital at the bank was checked in the sense that one inquired as to the production or sales possibilities.

Josephinism and the bank

Bargum wanted to establish a bank at least since 1786. He must have been convinced that he alone would not be successful to obtain a privilege, despite his reputation as a merchant in

Vienna. For this reason, he tried to convince first Nostitz and later Schwarzenberg and Colloredo-Mannsfeld of his project. Nostitz played an important role as a middleman.

The order of the main agents, which can be found at the end of the privilege, probably was not by accident. First, Joseph Johann Schwarzenberg is mentioned. After him, Colloredo-Mannsfeld, Nostitz and only at last Carl and Friedrich Bargum et Co. are listed.³⁰ This can also be interpreted as representing the social position of the individuals involved.

Against the background of the reforms of Maria Theresia and Joseph II., which were meant to weaken the aristocracy and strengthen state administrative structures and improve rural power relations and tenure it seems paradox that the foundation of the first private bank of the Habsburg Monarchy was linked with the name of the wealthiest Bohemian noble landlord.³¹

The state needed a bank institution which could carry out business independently. Joseph II. held this opinion from 1785 onwards.³² The example of the bank illustrates, however, that the administration and the Emperor were not ready to do without the support of the aristocracy in their reform undertakings, in particular because they had access to a large pool of capital because of the income from their estates. Founding the bank as a means of economic reform was directly opposed to the aims followed by the agrarian reforms, which shows some social ambivalence. Bourgeois entrepreneurs and representatives of the aristocracy as symbols for a traditionally structured society. We should not forget that the privilege was only given to Bargum as a bourgeois entrepreneur. His position was thus superior to the two layers of the bank's administration.

Other documents suggest that the members of the board of owners were not interested in an explicit mentioning of their names in the privilege, because they did not assume to be closely involved in running the bank in the beginning. At first, they granted independence to Bargum with respect to carrying out business. This does not mean, however, that they were not interested at all for the kinds of transactions in which the bank participated. A few months after the confirmation of the privilege already the increasing influence of the noblemen became visible. It became clear that they had concrete ideas, how active clients should be tied to the bank. Thus, they asked one client, who wanted to pay four million gulden into an

³⁰ SOA Český Krumlov, RA, Reglement 1787, pag. 12, nicht inv.; Ebenda, Konvention, pag.15, nicht inv.

³¹ Vgl. z.B. Rozdolski, Steuerreform, wie Anm. 2, passim.

³² Vgl. zu Einstellung von Josef II.: RAGER, Wechselbank, wie Anm. 25, 19–20, 27.

account within a year for a period of ten years to fulfil certain conditions. First, he should buy 100 shares, become a member of the executive board of the bank and should not carry out any other private transactions for the period, in which the bank uses his money.³³ His knowledge and know-how should be used for the best of the bank.³⁴ Also a banker from Holland, who should find a capital of three million gulden for the bank, should become a member of the executive board and receive an adequate wage.

Without doubt, these ideas of a certain loyalty towards the bank and its activities can be interpreted in the context of the way, the administration of landed estates would function and which paternalistic obligations existed between estate managers and landlords. To obey to these principles was expected in the beginnings of the bank, from the investors, as well as from the agents, which also operated on international financial markets. It represents the effort, to tie the special competence of individuals to the bank. It could have been difficult to find adequate know how for this new branch somewhere else in the Habsburg Monarchy. The board of owners must have been aware of this.

The other reason for not mentioning the aristocrats in the privilege may have been that their involvement in a bank institution may have seemed unusual in the Habsburg Monarchy at this time. It was probably not associated with a good reputation in public, and in this context 'public' should perhaps be understood in a more narrow sense as a social group, in which the noblemen were integrated. The bank's regulations, however, did mention the aristocrats, who would then guarantee that these regulations were observed and would act as a security for the clients, especially the more wealthy ones.³⁵ It seems to apply that this was a well-designed concept in which symbolic capital belonged to the foundations and helped to establish the bank in business.

Conclusion

With respect to connecting this to the level of the general social and economic development in the Habsburg Monarchy in the late eighteenth and early nineteenth centuries it seems important, to deal with the doubtlessly innovative aspects of the business administration of the

³³ SOA Český Krumlov, ÚP, Deliberationsprotokolle, 11.4.1788, pag.13.

³⁴ SOA Český Krumlov, ÚP, Deliberationsprotokolle, 14.7.1788, pag. 37.

³⁵ SOA Český Krumlov, RA, F.p.ü., Fasz. 261, Reglement vom 1787, Art.45, nicht inv.

bank in comparison to other contemporary institutions. The development of bank management was accompanied by dynamic processes. Some of the activities belong to the medieval traditions of the sector, such as trade at a large scale. Other, more important activities can be counted to modern parts of bank activities, such as financing the industrial sector. It was a bank institution that was directed by noblemen. Even more importantly, this sort of economic activity went beyond the framework of a traditional landlord demesne economy. The main agents felt responsible to the public and to the clients. They personally guaranteed for possible debts. A good reputation of the bank and its activities was of enormous importance. This also explains, why they were rather defensive with respect to risky opportunities and preferred to invest in safe transactions. In some respect, the bank can be regarded as a modern family company. Also the heirs were responsible for the bank's debts.

In this period of transition, the role of the state must not be neglected. A hypothesis would be that it seemed an advantage during the regency of Emperor Franz that the bank was directed by influential noblemen. The necessity of a privilege and the tragic state of the state finances, which led to two state bankruptcies (1811, 1816) during the period of the existence of the bank was an obstacle for the full development and economic prosperity and thus for a continued existence of the bank.