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## How to Adapt to a Changing Market? The Budapest Flour Mill Companies at the Turn of the Nineteenth and Twentieth Centuries

The focus of this article is the steam mill enterprises in Budapest at the end of the nineteenth century, a time when these companies were no longer enjoying their most profitable years. While earlier their high-quality flour had been sold for good profits on the markets of Western Europe, they found themselves slowly pushed from the marketplace by increasingly intense price competition, which was in part a consequence of the crisis in agriculture and, quite simply, the globalization of agriculture. While they were still able to produce for the undeniably important markets within the Austro-Hungarian Monarchy and ever higher customs duties on agricultural products helped strengthen their production for these markets, the demand for expensive flour on the domestic market was significantly smaller than in Western Europe. Confronted with the changes that had occurred in the marketplace, the mills in Budapest tried to adapt in a variety of different ways. In this article, I examine these strategies, focusing in particular on the very distinctive expansion of one of the mill companies.

Keywords: steam mill, agricultural crises, Hungary, Budapest, turn of the nineteenth and twentieth centuries, lobby activity, cooperation

The milling industry was the first branch of the economy in Hungary to represent modern, mechanized, large-scale industrial production. On the basis of production and exports, the milling industry was the leading branch of industry in Hungary in the nineteenth century.<sup>1</sup> The most modern, best equipped large enterprises within this industry, the ones that were able to produce the largest quantities of flour, were found in Budapest. All of these enterprises were engaged in business on a relatively large scale. They used steam engines, which

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1 Rostow's definition of the "leading sector" does not actually fit the milling industry in Hungary, since the drawing effect it exerted on other branches of industry was much more moderate in comparison with the influence of the English textile industry or the American railway. Walt W. Rostow, *The Stages of Economic Growth. A Non-Communist Manifesto* (Cambridge: Cambridge Univ. Press, 1990), 194. At the same time, Fogel throws into question the emphasis on a single branch of industry as a generative force for economic growth. According to Fogel, the concept of a "leading sector" represented little more than "the hero theory of history applied to things rather than persons." Robert W. Fogel, *Railroads and American Economic Growth: Essays in Econometric History* (Baltimore: John Hopkins Press, 1964), 236.

were in virtually continuous operation and produced flour for sale.<sup>2</sup> Growth in the Budapest steam milling industry began in the 1850s and burgeoned in the 1860s and 1870s.<sup>3</sup> Neither the so-called small crisis of 1869 nor the crash of 1873 did much to upset the position of the mill enterprises. These crises did not result in any long-term loss of profits, nor did they compel the companies to reconsider or restructure their positions in the marketplace.<sup>4</sup> However, beginning in the 1880s, market conditions began to change significantly, and this did force the steam mill companies of Budapest to adapt to shifting circumstances. The ways in which they attempted to do this are the focus of my inquiry.

### *In the Background: The Globalization of Agriculture*

Beginning in the 1880s, there was a glut of grain on the European markets, and grains began to be imported in large quantities from the United States, Canada, Argentina, India, and Russia. As a result of this glut, the prices of agricultural products began to drop dramatically, and the governments of Europe began to adopt increasingly protectionist policies with regards to customs duties, which first and foremost meant the introduction of duties on agricultural imports, duties which gradually rose.

The falling prices affected all agricultural products, which is why the period that began in the 1880s and lasted until the mid-1890s is referred to as a time of agricultural crisis in the secondary literature.<sup>5</sup> All in all, the duties made both

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2 Milling that was done for commerce, in other words production of flour sale, was characteristic of only a minority of mills at the end of the nineteenth century in Hungary. Of the steam mills, there were some enterprises that did milling for multure (i.e. for a fee), for the most part in small settlements in the countryside. In these cases, the mills would grind the raw materials in exchange for a share of the milling product. In contrast, the Budapest steam mills ground grains that they had purchased themselves, and they sold the milling product with the assistance of a network of agents.

3 For an analysis of the circumstances of the enterprises in these two decades, including costs and earnings, see Judit Klement, *Hazai vállalkozók a hőskorban. A budapesti gőzmalomipar vállalkozói a 19. század második felében* (Budapest, Eötvös Kiadó, 2012), 41–50.

4 1869 and 1873 bore witness to the fall of only a few enterprises, but in every case the mills were then kept in operation by new companies. See Judit Klement, “Válság egy húzóágazatban – a 19. századi malomipar példája,” in *Gödörből gödörbe. Mindennemű válságok Magyarhonban a 19. és 20. században*, ed. Csaba Katona (Szombathely: Mediawave Közalapítvány–Vas Megyei Levéltár, 2011), 79–90.

5 A few examples from the secondary literature: Andor Lőherer, *Gazdasági válság és a búza árbanatlása Magyarországon. Okai, eredményei és orvosszerei* (Budapest: Pátria, 1896); Pál Sándor, *A XIX. század végi agrárválság Magyarországon* (Budapest: Akadémiai Kiadó, 1958); T. W. Fletcher, “The Great Depression of English Agriculture 1873–1896,” *Economic History Review*, New Series 13, no. 3 (1961): 417–32; Kevin H. O’Rourke, “The European Grain Invasion, 1870–1913,” *The Journal of Economic History* 57, no. 4 (1997): 775–801.

the purchase of grains (the raw material) from abroad and the export of flour (the semi-finished product) more expensive, while at the same time, though the raw material could be obtained at a lower price, the prices of flour were also dropping.

While this agricultural crisis was underway, the United States began to emerge as an increasingly competitive rival to Hungarian production of flour on the world market. The entry of American flour on the European markets was another sign of the globalization of agriculture. Beginning in the 1880s, the mills in the area around Minneapolis dramatically increased their production capacities.<sup>6</sup> Economic development in the post-Civil War years provided the foundation for growth in Minneapolis. In the wake of the war, tremendous territories in the western United States were being cultivated and grains were being harvested. Train lines were under construction, which made it possible to transport the grains produced in the west and the mid-west to the east coast. In addition, steamboat travel between the United States and Europe was becoming increasingly frequent, and this further favored exports. Thanks to the efficiency of the network of train and steamboat companies in the United States, grains and flour from Northern America was less expensive on the West European markets, even with the increasingly punitive customs duties, than the grains and flour produced by Hungarian competitors.<sup>7</sup> The production of flour in the United States was almost completely automatized, which meant both continuous production and low production costs.<sup>8</sup> Both of these factors made American flour more competitive from the perspective of price. In addition, because American grains were similar from the perspective of the hardness of the individual seeds to Hungarian grain, the ground flour was also of a similar quality.<sup>9</sup> It was no coincidence that American engineers were very interested in the various innovations that were being introduced in

6 “By 1882 Minneapolis was already producing 3 million bushels of flour annually. By 1885 the output had risen to 5 million and by 1890 over 7 million.” Alfred D. Chandler, *The Visible Hand. The Managerial Revolution in American Business* (Cambridge–London: Belknap, 2002), 253.

7 Vilmos Sándor, *Nagyipari fejlődés Magyarországon. 1867–1900* (Budapest: Szikra, 1954), 300–08; László Katus, “Magyarország gazdasági fejlődése (1890–1914),” in *Magyarország története 1890–1918*. vol. 1 of 7, ed. Péter Hanák (Magyarország története tíz kötetben) (Budapest: Akadémiai Kiadó, 1978), 293–96.

8 Charles Kuhlmann, *The Development of the Flour-Milling Industry in the United States with Special Reference to the Industry in Minneapolis* (Clifton: Augustus M. Kelley, 1973), 104–54. See also the article by Ágnes Pogány in this issue: Ágnes Pogány, “Crisis Management Strategies after the First World War. The Case of the Budapest Flour Mills,” *Hungarian Historical Review* 4, no. 4 (2015).

9 “The »new process« mills, as they were known, produced high-quality flour in high volume and at low unit cost.” Chandler, *The Visible Hand*, 251.

the milling industry in Budapest, and they rapidly adopted similar measures in the United States,<sup>10</sup> which meant that Budapest began to lose its technological advantage.

As a consequence of these developments, in the 1880s Hungarian grains and, first and foremost, the various kinds of flour produced in Budapest began to find themselves crowded out of the foreign customs markets. The domestic customs market, i.e. the Austro-Hungarian Monarchy, increasingly became the most important market for grains and flour.<sup>11</sup> While in 1882, 53 percent of Hungarian flour remained in the territories of the Monarchy, by 1912 this number had grown to 87 percent (see Figure 1).

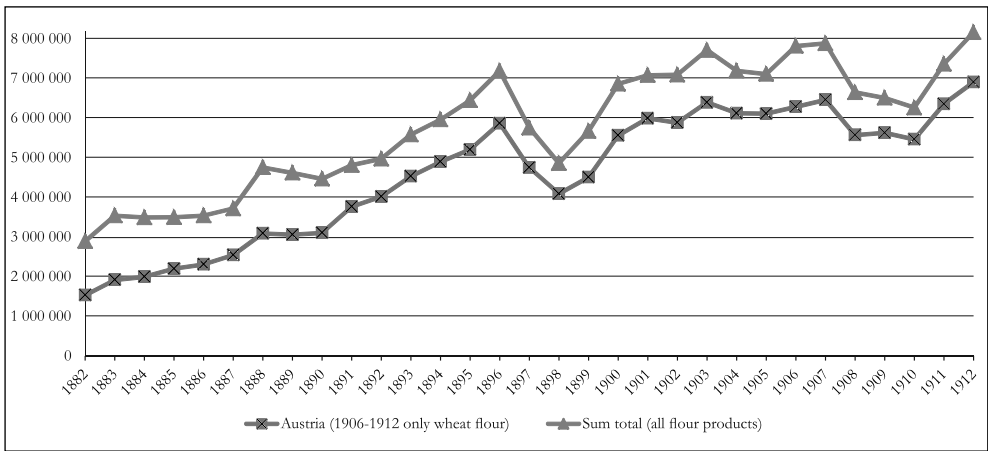


Figure 1. Hungarian flour exports to Austria and in total, between 1882 and 1912, in quintals  
 Source: Annual reports of the Budapest Chamber of Commerce and Industry from 1882 to 1912.

This represented a tremendous loss of markets for the steam mill enterprises of Budapest, which had sold their finely ground flours first and foremost on the markets in Western Europe (Great Britain, Germany, Switzerland, France, Holland, and Belgium), but also on markets in comparatively distant lands, such as Brazil, the Dutch East Indies, and South Africa. The markets within the Austro-Hungarian Monarchy simply were not capable of purchasing such

10 *Report on the Production of Agriculture as Returned at the Tenth Census* (June 1, 1880), Department of the Interior, Census Office, vol. 12, (Embracing general statistics and monographs on cereal production, flour-milling, tobacco culture, manufacture and movement of tobacco, meat production) (Washington: Government Printing Office, 1883), 572.

11 Katus, “Magyarország gazdasági fejlődése (1890–1914),” 384 f.

large quantities of high-quality flour, and thus, the growth in the amount of exported flour notwithstanding (see Figure 1), for the mill companies of the Hungarian capital the market for expensive high-quality ground flours significantly shrank.

### *The Positions of the Budapest Mill Enterprises at the End of the Nineteenth Century*

If one focuses exclusively on production, there were no indications that the mill companies of Budapest faced any particular problems at the end of the nineteenth century. In 1875, they produced a total of only 3,148,117 quintals. By 1910, this number risen to 7,222,229. In three individual years (1886, 1906, and 1907), they produced more than 8 million quintals. Until the mid-1890s, growth was continuous. From then on, production stagnated, moving between 6 and 8 million quintals (see Figure 2).

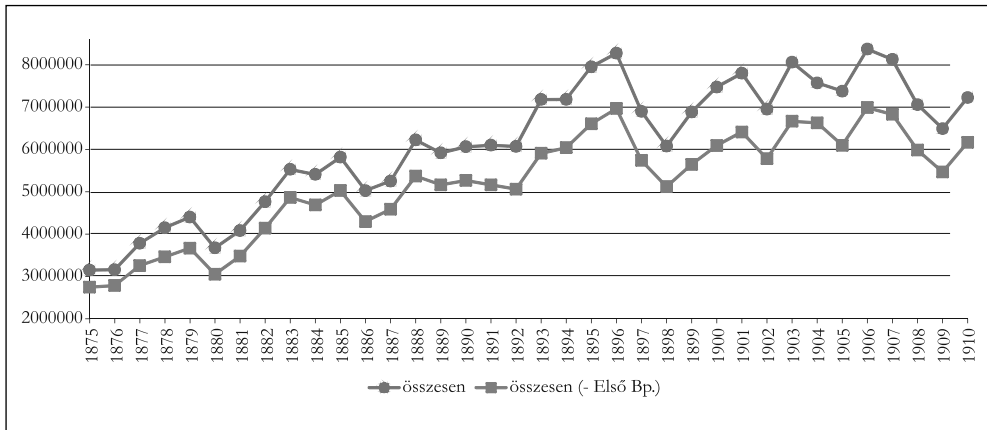


Figure 2. The sum total output of the Budapest steam mills between 1875 and 1910 (wheat, in quintals)

Source: Annual reports of the Budapest Chamber of Commerce and Industry from 1878 to 1910; Milling industry statistics, 1894.

A note on the terminology: “sum total” refers to the sum of the production data for all of the enterprises. “Sum total (- Első Bp.)” refers to the sum of the production data, not including the data for the Első Budapest Rt. [First Budapest Joint Stock Company], which produced the largest quantities in Budapest.

Thus, neither the agricultural crisis nor the shifts that were taking place in the agricultural marketplace caused a drop in production. This was due in part to a deliberate business policy which could be referred to as an attempt to “escape

by getting ahead,”<sup>12</sup> since the companies attempted to address the problems caused by dropping prices by increasing production. Growth in production was also furthered by the introduction of the processing trade by the state.<sup>13</sup>

The processing trade made it possible for the mills to import grain without having to pay customs duties if they could export a given amount of milling product before a given deadline. The processing trade was not a new institution or phenomenon. As a practice, it had existed before, and it was familiar and part of established practice abroad as well.<sup>14</sup> In Hungary, the second point of the tenth paragraph of law XVI of 1882 on the general customs and excise tariff for the customs area of the Austro-Hungarian Monarchy made it possible for this practice to be introduced again.<sup>15</sup> The implementation of the law as it applied to the milling industry was regulated by a decree issued in the same year by the Ministry of Finance.<sup>16</sup>

According to the decree, the grains that were imported were free of customs duties, or rather the duties were refunded, if, within a year of having imported 100 kilograms of wheat, a given company exported 70 kilograms of wheat flour. In the case of rye, 65 kilograms of rye meal had to be exported for every 100 kilograms imported. (It is worth noting that these proportions correspond approximately to the quantity of wheat and rye meal that can be obtained from the grinding process. Bran was thus free of customs duties according to the decree.) The companies had to register the imported grains and the exported flour at the appropriate customs house. The decree specified only that the grain products that were exported had to correspond with the kinds of grain that were imported “according to their kind.” In other words, wheat that had been

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12 The expression was introduced by György Kövér: György Kövér, *A felhalmozás íve. Társadalom- és gazdaságtörténeti tanulmányok* (Budapest: Új Mandátum Kiadó, 2002,) 306.

13 On the importance of the processing trade to the milling industry see Judit Klement, “Az őrlési forgalom jelentősége a fővárosi malomvállalatok nézőpontjából,” in *Piacok a társadalomban és a történelemben*, ed. Károly Halmos, Zsuzsanna Kiss, and Judit Klement (Rendi társadalom – polgári társadalom 26) (Budapest: Hajnal István Kör, 2014), 211–20.

14 The processing trade could also involve other milling, finishing, and repairing work. The production of threads and fabrics, for instance, was a major area of the processing trade. The institution (in German *Mahlrverkehr*) had been introduced in Germany in 1881, thus the trade of duty-free goods between Germany and Austro-Hungary was subject to 1881 regulations that preceded the 1882 law of the Austro-Hungarian Monarchy.

15 Since 1850, Hungary had been part of the common customs of the Habsburg Empire, and this did not change with the Compromise of 1867. Customs duties were established collectively by both parties. This was true in the case of the 1882 law as well.

16 Minister of Finance General order number 30,974 of May 29, 1882 “on the handling of grains brought in for grinding or taken out of the customs zone.” *Rendeletek Tára* (1882): 665–68.

imported was free of customs duties if the company that imported it exported wheat flour. The decree makes no more specific mention of the raw materials or finished products, thus the companies did not actually have to demonstrate that the milling product that was exported was actually made using the grains that had been imported. By refunding customs duties, the government sought to ensure that the customs duties that were introduced in 1882 in the Monarchy did not have a negative influence on the volume of flour exported. Yet at the same time, the government also wanted to prevent duty-free grains from leading to price wars on the domestic market.

The leaders of the Budapest mill companies were unambiguous in their praise of the processing trade, and indeed they characterized it as life-saving. In their view, it helped compensate for the increased costs that had come with the introduction of customs duties on grains and flours.<sup>17</sup> The processing trade was unquestionably one of the factors behind the growth in production. This is demonstrated quite clearly by the fact that the growth in production coincided with the introduction of the processing trade. In 1896, limits were placed for the first time on the discounts that were offered by the processing trade (for 100 kilograms of wheat, a company had to export 100 kilograms of wheat flour), and in 1900 the institution was eliminated altogether. In the case of the Budapest mills, production stopped growing in the 1890s.

The processing trade was the most vigorously opposed by the alliance of Hungarian landowners (Országos Magyar Gazdasági Egyesület, OMGE), since they regarded it as the primary cause of the drops in the prices of grain on the domestic market, and they also considered it a kind of cheating that there was no way of verifying that the milling products that were exported were actually made using the grains that had been imported. The OMGE had the support of Austrian farmers and Austrian and Czech industrial interests as well. Towards the end of the 1890s, in the course of negotiations intended to lead to the next economic compromise, the Austrians were adamant about the elimination of the processing trade, and in the course of similar negotiations in 1907 they

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17 Emil Bacher, *A magyar malomipar* (Budapest: Károlyi György kő- és könyvnyomdája, 1911); Endre Bosányi, *A malomipar szerepe és jelentősége közgazdaságunkban* (Budapest: Pesti Könyvnyomda Rt., 1892); Konrád Burchard-Bélaváry, *A malomipar az ezredéves országos kiállításon* (Separate print from the eighth volume of Sándor Matlekovits's exhibition entitled "Az ezredéves kiállítás eredménye") (Budapest: Pesti Könyvnyomda Rt., 1898); Ignác Fekete, *Az őrlési forgalom* (Budapest: Pesti Könyvnyomda-Részvénytársaság, 1900).

were strongly opposed to its reintroduction. This demonstrates clearly that the question of the processing trade was not only a Hungarian issue.<sup>18</sup>

While the leaders of the milling enterprises in Budapest protested vociferously against the limitations placed on processing trade and later its elimination and, indeed, in the wake of World War I expected that it would be reintroduced, it is not immediately apparent that this would have had any significant effect on their profits. A contemporary market analyst made this contention in 1910, and my analyses support his conclusion.<sup>19</sup> However, the debate concerning the processing trade played a considerable role in the ever more active presence of lobbyists working in support not only of the interests of the Budapest milling industry, but also in the interests of Hungarian industry in general. It is hardly coincidental that the National Alliance of Industrialists, an organization devoted to the defense of industry interests, was founded in 1900, in Hungary.

Since most of the Budapest milling enterprises were joint stock companies, their balance sheets, which were public information, allow for study of the successes and failures of their business ventures. In order to provide an overview of their circumstances at the end of the nineteenth century, I offer a summary of the results of my examination, forgoing diagrams and detailed analysis in the interests of brevity and space.<sup>20</sup>

The effects of the agricultural crisis were most immediately apparent in their profitability. (Profitability is measured here by earnings as a percentage of own capital, the latter of which is the sum of invested capital, reserves and write-offs, and earnings.) As of the early 1880s, drops in profits among the joint stock mill companies of Budapest were a general trend. Earnings as a percentage of own capital remained around 5 percent from the mid-1880s up to the outbreak of World War I. This constituted a drastic decline, since earlier this proportion had

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18 Since Austria and Hungary were part of a common customs area and the question of the processing trade was one of the questions of customs duties (since the duties were refunded), the processing trade was an issue that had to be addressed collectively. This is why it ended up on the agenda of the economic compromises that were negotiated every ten years in order to address common economic questions.

19 Henrik Gärtner, "A budapesti malmok jövedelmezősége és az őrlési forgalom," *Közgazdasági Szemle* (1910): 775–95.

20 I offer a detailed presentation of the methodologies of the study of the results of the business ventures and an examination of the results themselves here: Judit Klement, "Die Agrarkrise am Ende des 19. Jahrhunderts und die Budapester Mühlenindustrie," in *Krisen/Geschichten im Mitteleuropäischem Kontext. Sozial- und Wirtschaftsgeschichtliche Studien zum 19./20. Jahrhundert*, ed. Márkus Keller, György Kövér, and Csaba Sasfi (Vienna: Institut für Ungarische Geschichtsforschung in Wien, 2015), 167–97.



been consistently above 10 percent. The companies never managed to bring in profits comparable to earnings in the mid-1870s.

Drops in profit were followed by drops in dividends. Up until the late 1870s, the Budapest mill companies had reliably paid out annual dividends of more than 10 percent. In the early 1880s, dividends were roughly 15 percent of the nominal value of the stock. This dropped to 5 percent by 1886, and while there were two years in the first half of the 1890s in which dividends again rose to roughly 10 percent,<sup>21</sup> 5 percent was much more characteristic of the decade. (At the time, in general banks paid 6 percent on deposits.) After 1906, there was one more moment of economic upswing before the outbreak of war. This can be seen in increases in production. Profits also increased marginally, and dividends crept above 5 percent, but they remained below 10 percent on average. At the same time, one should add, with regards to dividends that according to the management reports most of the mill companies strove to pay at least 5 percent, even in the worst years, even if they had to dip into reserves in order to do this. In general, the companies set aside dividend reserves for this purpose.

The prices of shares of stock in the Budapest milling enterprises suggest similar economic trends. Until the mid-1880s, the shares remained roughly around 150 percent of their nominal value on the stock market. After 1885, their value dropped a bit, but remained above the nominal value. Share prices also reflect the brief period of growth in the first half of the 1890s, when on average they exceeded 150 percent of their nominal value, only then to plummet back down to 100 percent, where they remained for another decade. Beginning in 1906, share prices again reflect the period of upswing before World War I. Shares rose to and even went above 150 percent of their nominal value. Nonetheless, from the mid-1890s on, shares in milling enterprises fell out of the club of best investments, and they never became a part of this group again.<sup>22</sup>

While share prices only began to reveal the precariousness of the positions of the milling enterprises in the mid-1890s, the credit indicators at the Pest branch of the Austro-Hungarian Bank indicated potential concerns as early as the mid-1880s. This institution played the role of central bank at the time, and the decisions regarding which enterprises were given loans and how much they

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21 This period of upswing in the early 1890s had a smaller effect on profitability. The upswing was significantly smaller.

22 For a study of the shareholdings that brought in above-average earnings see Katalin Mérő, "Részvényárfolyamok alakulása a budapesti értéktőzsdén, 1864–1943," *Statisztikai Szemle* 65, no. 12 (1987): 1239–59.

would be given reflected the market position of the given company or branch of industry. In the mid-1880s, the Austro-Hungarian Bank began to reduce the amounts of the loans that were made to the Budapest mill companies, though earlier they had regarded the credit of these businesses as particularly favorable. In 1890-91, the amounts of the loans that were given to some individual companies began to increase, though given the absence of sources, we know little about how this development progressed.<sup>23</sup> At the same time, on the basis of the balance sheets, we do have an overview of the indebtedness of the Budapest milling enterprises. In other words, we can consider this question from the perspective of the borrowers. According to the balance sheets, the proportion of foreign capital to company capital followed the trend suggested by the Austro-Hungarian Bank's credit indicators. In the 1880s and particularly in the latter half of the decade, the amount of foreign capital dropped slightly on the balance sheets. However, beginning in the 1890s, it began to grow again, and it continued to grow symptomatically until World War I.<sup>24</sup> Furthermore, in the periods in which foreign capital was lower, the enterprises demonstrated that they wanted to hold proportionally larger funds in reserve and also that they were capable of a larger degree of internal financing. From the 1870s until the early 1890s, the amounts set aside in reserves grew continuously at the Budapest milling enterprises, but even when they ceased to grow, they still remained at the levels at which they had been at the end of the 1880s. The same was true of the companies' ability to use internal sources to finance operations.

To summarize, the data that I have presented on the Budapest milling enterprises at the end of the nineteenth century illustrate clearly that the economic circumstances of these enterprises began to change dramatically beginning in the 1880s. Profits, which earlier had poured in, began to run dry, dividends and share prices dropped, and external sources of credit temporarily declined. While it is quite apparent that they were compelled to make significant strategic shifts in order to adapt to shifting market conditions, this period was not nearly as dire from the perspective of the fates of these companies and the challenges that they had to face as the post-war period, which bore witness to a fatal decline in market position.<sup>25</sup> Rather, in the period before the outbreak of

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23 For a study of the credit framework of the bank, see Kövér, *A felhalmozás útja*, 298–308.

24 Béla Tomka has also studied the gradual process of indebtedness that hit the Budapest milling companies at the end of the nineteenth century: Béla Tomka, "A magyar malomipar finanszírozása (1895–1913)," *Korall* 4, no. 14 (2003): 79–97.

25 For more on this see Ágnes Pogány, "Crisis management strategies after the First World War."

World War I, on the basis of the data the milling enterprises simply seem to have been part of a branch of industry that was no longer growing.<sup>26</sup> However, the shift in their positions on the market also led to changes in the business policies and strategies of these companies.

### *Adaptation to the Market*

The continuous growth in production, which lasted until the mid-1890s, and the strengthening of the tendency to set aside funds in reserves that could even be used to pay dividends both indicate attempts on the part of the companies to adapt to shifting circumstances. But the genuinely striking shift came with efforts among the various enterprises to promote cooperation and hold onto or acquire new markets.

As the Budapest mills, far from cutting production, actually increased it, the abovementioned narrowing of their markets led to a glut. The companies attempted to address this problem by agreeing on shared production limits. Company leaders met almost every year to attempt to arrive at some consensus, and these meetings were always recorded in the annual reports of the boards of directors. However, even if an agreement were reached regarding mutual cuts in production that would last a few months, it was not at all certain that either party would actually stick to the terms of the agreement. The annual reports contain recurring complaints concerning the necessity of cutting back production, which was justified because of the accumulating stockpiles, and the failures of the negotiations to reach an agreement concerning mutual reductions of operations. Earlier, there had been hardly any examples of the milling enterprises of Budapest attempting to work together in their own shared interests.<sup>27</sup>

The failure of the companies to negotiate a meaningful form of cooperation was one of the factors that galvanized their efforts to acquire new markets. Beginning in the 1890s, the milling enterprises of the Hungarian capital strove to purchase mills in settlements in the countryside and, thereby, to obtain their markets. While the Budapest mill companies had vibrant and effective ties with

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26 To draw on Rostow's notion of stages of economic growth, the Budapest milling industry went beyond the stage of rapid growth, since "deceleration is the normal optimum path of a sector." Walt W. Rostow, *The Process of Economic Growth* (New York: W. W. Norton & Company Inc. 1962), 308.

27 Cooperation between the milling enterprises of Budapest was ineffective in another area as well. In the early 1880s, the idea came up of creating, collectively, a pension fund for the white-collar workers of the Budapest milling enterprises. However, the initiate was rapidly dropped and the companies dealt with their employees on their own, not as part of a larger cooperative effort.

enterprises and markets beyond the borders of the Austro-Hungarian Monarchy (the strength of which, however, decreased with the loss of markets in the wake of the agricultural crisis), the milling enterprises outside of Budapest enjoyed advantageous positions on the markets within the Monarchy and in Hungary. Thus, by acquiring the mills outside of Budapest, the mill companies in the capital had more opportunities to sell on the domestic market, which also meant avoiding having to pay customs duties.<sup>28</sup>

Towards the end of the nineteenth century, some of the Budapest milling enterprises began to merge, and this represented another manner of acquiring new markets. Pannónia and the Erzsébet Gőzmalom Rt. (Erzsébet Steam Mill Joint Stock Company) merged in 1896. Over the course of a decade of aggressive business moves, one of the enterprises, Első Budapesti Gőzmalom Rt. (First Budapest Steam Mill Joint Stock Company), managed to acquire four of its competitors. This “hostile maneuvering” began at the turn of the century and continued to lead to mergers in the late 1920s and the mid-1930s.

### *The Expansion of the First Budapest Steam Mill Joint Stock Company*

I have addressed the circumstances of and challenges faced by the milling enterprises of Budapest in general thus far, making no mention of the at times quite considerable differences among them. However, at the beginning of the twentieth century, two of the companies in the Hungarian capital began to get well ahead of their competitors from the perspective of business and production results, the Victoria Steam Mill Joint Stock Company and the First Budapest Steam Mill Joint Stock Company. Victoria Steam Mill had significant financial backing from abroad, primarily from England, and grew in part because of expansion into the Balkans. The First Budapest Steam Mill Company had support from domestic banks and developed a network of enterprises that for a long time was not overly conspicuous. In the rest of my study, I focus on the details of this story.<sup>29</sup>

The relationships between the companies first became noticeable because of the presence of certain individuals. Leaders of the First Budapest Steam Mill

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28 As Vilmos Thernesz observes, this was a concentration of enterprises with a de-concentration of production. Vilmos Thernesz, “Magyar malomipar helyzete a 20. század első felében,” in *Műszaki innovációk Magyarországon*, ed. Walter Endrei (Budapest: Akadémiai Kiadó, 1995), 109–33.

29 Most of the people will not be named here in the interests of brevity and space. For the details, see Judit Klement, “Vállalatok hálózatban. Vállalati kooperáció a 20. század elején a budapesti gőzmalomiparban,” *Korall* 50 (2012): 82–106.

Company all of a sudden would acquire roles on the boards of directors and the supervisory committees of other mill companies in Budapest,<sup>30</sup> specifically as of 1904 at the Pesti Molnárók és Sütők Gőzmalma Rt. (Pest Millers and Bakers' Steam Mill Joint Stock Company) and the Lujza Gőzmalom Rt. (Lujza Steam Mill Joint Stock Company) and as of 1912 at the Erzsébet Gőzmalom Rt. (Elisabeth Steam Mill Joint Stock Company). From 1904 to 1907, three of the at least five people on the board of directors of the Pest Millers and Bakers' Company came from First Budapest, and in 1907 this number rose to four. In 1905, the relationship became mutual, when the general manager of the Millers and Bakers became one of the eight people serving on the board of directors at First Budapest. In the case of the Lujza Steam Mill Company, as of 1904 First Budapest continuously had three people on the board of directors and one person on the supervisory committee, as of 1911, in the latter two.<sup>31</sup> Additionally, in 1914, a new general manager was appointed who also had a position at First Budapest. In return, the interests of Lujza Steam Mill Company were represented on the board of directors of First Budapest by two people, and from 1912 on by one member. First Budapest's relationship with Erzsébet Steam Mill remained one-sided, meaning people from First Budapest acquired positions at Erzsébet. In 1912, three of the at most ten people on the board of directors were from First Budapest, as were two of the five people on the supervisory committee.<sup>32</sup>

Earlier, these kinds of personal interconnections had been prohibited by articles of associations. Indeed for this very reason, general meetings had to be held in order to modify the articles of associations. This took place in roughly the same manner everywhere. For instance, in April of 1904, Pest Millers and Bakers made an alteration to the company's constitution in order to loosen this restriction. The relevant clause of paragraph 35 contained the following

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30 In the Hungarian companies, as was the case in Germany and Austria, the board of directors and the supervisory board or committee were two separated corps. The board of directors was responsible for the strategic leading of the company, while the supervisory board inspected whether the operation of the company was appropriate to the interests of shareholders and the law. The members of both committees were elected by a general meeting of the company for a given period and for a given remuneration. Their duties, election and benefits were regulated in the articles of association of the company.

31 After 1904, the board of directors of the Lujza Steam Mill Company numbered between seven and nine people. The supervisory committee was consistently made up of four people. (BFL VII.2.e. Cg. 1224/675, 676, 667, 668).

32 BFL VII.2.e. Cg. 1193/715. Articles of association of the Erzsébet Steam Mill Company following the amendment of 1912.

stipulation: “[t]he members of the board of directors cannot play roles in the leadership or management of other milling enterprises unless the board of directors gives its unanimous agreement.”<sup>33</sup> However, beyond this, nothing took place at the general meetings of these companies that would indicate that some agreement or accord had been reached or some form of cooperation or collaboration was underway with another company.

The reports of the First Budapest board of directors that survived among the writings of the company make some mention of these new relationships, though admittedly only sparing mention. The report on financial year 1903 contained the following passage regarding the relationship of the company to Pest Millers and Bakers and the Lujza Steam Mill:

The intense competition with the mills of the capital described in the first section of our report and also the difficulties that arise every time it would be important to arrive at agreements regarding the most significant questions of our industry prompted us, on the subject of drawing other milling companies into our sphere of interest, to give serious consideration *to those among the overtures that have again been made to us* that we are convinced will not only loyally defend the interests of the shareholders of these companies, but whose collaborative participation will also be advantageous from many perspectives for us and will also correspond to our business goals. And in the end we accept the offers that have been made by the Lujza Steam Mill and the Pest Millers and Bakers’ Steam Mill Companies. [The manner of implementation will be voluntary exchange of shares] in such a manner that we promise the shareholders in the Lujza Steam Mill Company *one share in our company in exchange for five shares in the Lujza company* and the shareholders in the Pest Millers and Bakers’ Company *one share in our enterprise for every three shares in the Millers and Bakers’ Company*, and all this without dividend warrants for the 1903 financial year. [...]

While it is our intention to maintain the independent organization of the two shareholder companies to be drawn into our sphere of interest, nonetheless, cooperation among three such prominent enterprises, each of which has a production capacity exceeding three-million [quintals] per year, creates numerous advantages and will definitely help us place the business of strong foundations. Furthermore, it will increase the competitiveness of Hungarian flour on the foreign market and thus will perform a useful service for Hungarian exports and, indirectly, the Hungarian economy.<sup>34</sup>

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33 BFL VII.2.e. Cg. 1211/1. 712. d.

34 BFL XI.1005. 5. d. Board of directors’ report appended to the regular general meeting of February 15, 1904. (Display setting in italics is mine).

The reference to “intense competition” and the “difficulties” that arose with regards to reaching agreements on the most important questions indicate that the expansion became the new strategy of First Budapest. Since the company had been unable to arrive at lasting agreements with its competitors, it had chosen another path: “drawing” the other companies into its “sphere of interest.” The board of directors needed a detailed explanation because the proposal to “draw” other enterprises into First Budapest’s “sphere of interest,” i.e. in concrete terms the implementation of “voluntary exchange of shares,” meant that First Budapest would have to issue new shares. So the general meeting of First Budapest had to increase the capital of the company. At the assembly that was held on February 15, 1904, the general meeting voted in favor of raising the capital from 3 million crowns to 4.5 million crowns by issuing 3,000 shares with a nominal value of 500 crowns. Thus, the overlaps between the companies, which were already visible in the presence of First Budapest’s people on the board of directors and supervisory committee of other companies, also became overlaps in ownership.

While the exchange of shares of stock was voluntary, the report of the board of directors of First Budapest indicates the scale of the planned acquisition. According to the report, they offered one share of First Budapest stock in exchange for five shares of stock in Lujza Steam Mill and three shares of stock in Pest Millers and Bakers.<sup>35</sup> At the time, Lujza Steam Mill had a capital of 2,800,000 crowns and 8,750 shares of stock with a nominal value of 320 crowns. The Pest Millers and Bakers’ Steam Mill Company had a capital of 1,800,000 crowns with 4,500 shares of stock with a nominal value of 400 crowns. If the shareholders had wished to acquire all of the Lujza stock, they would have needed 1,750 shares of First Budapest stock in order to do so. Similarly, it would have needed 1,500 shares of First Budapest stock in order to acquire all of the Pest Millers and Bakers shares. All in all, this exchange, in both companies, would have required a total of 3,250 shares of First Budapest stock. Since the general meeting of First Budapest had decided to issue 3,000 new shares of stock, they cannot have assumed that the shareholders in Lujza and Pest Millers and Bakers intended to exchange all of their stock in these companies. However, they were clearly interested in securing a majority share.

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35 The Pest Millers and Bakers’ Steam Mill Company was commonly known by the name Bakers’ Mill, since the enterprise had indeed been founded by millers and bakers.

If we consider the offer from the perspective of the Lujza and Pest Millers and Bakers shareholders, the exchange of stock does in fact seem to have been a reasonable proposition. Since 1900, stock in the Lujza Steam Mill Company had been weaker with each passing year, and the value of the stock on the market had remained between 210 and 230 crowns, in other words only 65 to 70 percent of the nominal value. The nominal value of five shares of this stock was 1,600 crowns, but even at a bad market price they were worth at least 1,000 crowns, in exchange for which First Budapest was offering one share of its stock, nominally worth 500 crowns but in general fetching at least twice as much on the market. (On December 31, 1903 the market price of First Budapest stock was 1,285 crowns, and on June 30, 1904 it was 1,1000 crowns.) The Pest Millers and Bakers' Company stock had a better standing on the market than the Lujza stock. They generally closed at a price above their nominal value, and even when the price dipped, it remained around 94 percent, or 375 crowns. The nominal value of three shares of Pest Millers and Bakers stock was 1,200 crowns or, when the price dropped, 1,125 crowns. Thus, the market price of First Budapest stock was roughly equal to that of three shares of Pest Millers and Bakers stock (see Figure 3).<sup>36</sup>

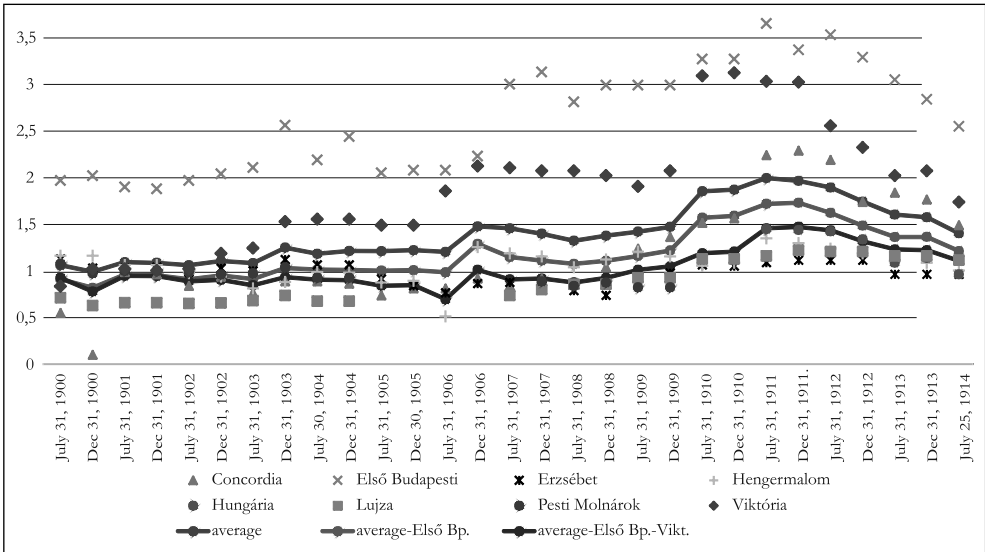


Figure 3: Market prices of shares of stock in the Budapest milling enterprises as a percentage of their nominal value.

36 *Tőzsdelap*, 1900–1904.



A note on the terminology: “average” refers to all of the enterprises; “average - Első Bp.” refers to average market value of stocks, not including the data for the Első Budapest Rt. [First Budapest Joint Stock Company]; “average - Első Bp. - Viktória” refers to average market value of stocks, not including the data for the Első Budapest Rt. [First Budapest Joint Stock Company] and for Viktória Steam Mill Joint Stock Company.

Source: *Tőzsédelap*, 1900–1914.

The documents of the companies contain no details concerning the actual implementation of the exchange of stocks, nor is it actually clear that either the Lujza Steam Mill Company or Pest Millers and Bakers actually sought to establish a relationship with First Budapest. However, the shares that were represented in the course of general meetings offer some insights into the rearrangement of the shareholdings. Since the voting power of an individual shareholder at an assembly was always proportionate to the number of shares he possessed (in compliance with the proportion of shares to votes specified in the articles of association of the company), in order to determine the number of votes for a given assembly the shareholders had to present their shares which they intended to have in votes at the general meeting. This presentation always took place before the general meeting, mainly in a bank or at the pay desk of the company. The lists of shareholders that were compiled became part of the minutes of the general meeting and thus constituted documents that had to be submitted to the registry court. If they survived among the documents of the company or the registry court, they enable us to reconstruct the circle of proprietors of a joint stock company. However, the fact that only a small fraction of shareholders actually showed up for the assemblies does significantly limit the usefulness of these lists.<sup>37</sup> Fortunately, in the case of the Lujza Steam Mill Company and the Pest Millers and Bakers’ Steam Mill Company the lists for 1904–1914 are available, with the exception of the Millers and Bakers list for 1912, thus I was able to draw on these sources.<sup>38</sup>

The First Budapest Steam Mill Company does not figure a single time on any of the lists of shareholders. In other words, the company used individuals to further its interests at the assemblies. Thus, with regards to the presence of

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37 On the uses and limitations of this kind of source see György Kövér, “A részvényesek névjegyzéke mint társadalomtörténeti forrás,” in *Kutatás – módszertan*, ed. Gyula Erdmann (Rendi társadalom – polgári társadalom 2.) (Gyula: Hajnal István Kör, 1989), 118–24. In the case of the Budapest steam mill joint stock companies, on average one-third of the shareholders attended the general meetings with their shares. For precise details see Klement, *Hazai vállalkozók a hőskorban*, 163–71.

38 BFL VII.2.e. Cg. 1211/1. 712, 762, 763. d; Cg. 1224/675, 676, 667, 668.

the company as a shareholder and owner, one must consider the shares of stock held by the people that represented First Budapest.

The people who had positions at the Pest Millers and Bakers' Steam Mill as of 1904 and at the same time represented the interests of First Budapest were all present at the general meetings as shareholders. Their combined share in the company was small at first, reaching barely 1 percent, but by 1905 and 1906 it had risen to 5 percent, and as of 1907 it remained around 10 percent (see Table 1).

	1904	1905	1906	1907	1908	1909	1910	1911	1913	1914
Sándor halmi Deutsch	10			100	100	100				
Károly Haggemacher	10	100	100	100	100	100		100	150	150
Jakab Lang	10									
Ede Langferder	10	100	100	100	100	100	100	100	150	150
Ottó Mayer				100	100	100	100	100	100	150
Henrik rátonyi Reusz	10		50			50	100	100	100	150
Jakab Schuk	10	30	60	30	30	30	30	30		
Number of shares of stock owned by them	60	230	310	430	430	480	330	430	500	600
Shares of stock owned by them as a percentage of the total number of shares in the company (%)	1.3	5.1	6.9	9.6	9.6	10.7	7.3	9.6	11.1	13.3
Total number of shares of stock presented at the assemblies	1853	1190	1180	1280	1030	1350	1150	1290	1470	1460
Total shares of stock presented at the assemblies as a percentage of the total number of shares in the company (%)	41.2	26.4	26.2	28.4	22.9	30.0	25.6	28.7	32.7	32.4

Table 1: Shareholdings of the people who represented the First Budapest Steam Mill Company at the general meetings of the Pest Millers and Bakers' Steam Mill Company, 1904–1914

Not all of the people who represented First Budapest and had come to play important roles at Lujza from 1904 were listed as shareholders at the general meetings, but the tendency was similar. Their presence could not be detected in 1904, but by 1905–1906, they represented almost 5 percent of the shares, and as of 1907 their share ownership hovered around 10 percent (see Table 2).

	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913	1914
Lajos Gerisch							200	200	200	200	200
Károly Haggemacher		125	125	125	125	200	200				200
Ede Langfelder		125	125	375	125	200	200	200	200	200	200
Miksa Löwy		125	125	125	125	200	200	200	200	200	200
Ottó Mayer				125	125	200	200	200	200		200
Number of shares of stock owned by them	0	375	375	750	500	800	1000	800	800	600	1000
Shares of stock owned by them as a percentage of the total number of shares in the company (%)	0.0	4.3	4.3	8.6	5.7	9.1	11.4	9.1	9.1	6.9	11.4
Total number of shares of stock presented at the assemblies	1146	2000	1875	2375	1875	3200	2800	2800	3000	2400	3000
Total shares of stock presented at the assemblies as a percentage of the total number of shares in the company (%)	13.1	22.9	21.4	27.1	21.4	36.6	32.0	32.0	34.3	27.4	34.3

Table 2: Shareholdings of the people who represented the First Budapest Steam Mill Company at the general meetings of the Lujza Steam Mill Company, 1904–1914

One can therefore conclude, on the basis of this data, that after 1904, the First Budapest Steam Mill Company managed to acquire 10 percent of both the Lujza and the Pest Millers and Bakers' Steam Mill companies. However, on the lists of shareholders one finds not only "representatives" delegated by First Budapest, but also other people who had positions at First Budapest, as well as representatives of other enterprises that had been drawn into the sphere of interest of First Budapest. For instance, the general manager of the Lujza Steam Mill was present as a shareholder in the Pest Millers and Bakers' Steam Mill Company, and vice versa. If one considers all of the people among the Pest Millers and Bakers' Steam Mill and the Lujza Steam Mill Company shareholders who were in positions at First Budapest or at other companies in the sphere of interest of First Budapest at

the same time (for the sake of simplicity I will refer to them as “network people”), their presence is even more striking. They owned almost 20 percent of the shares at these companies. And at this time a stake between 15 and 20 percent in an enterprise meant a majority share (see Tables 3 and 4).<sup>39</sup>

	1904	1905	1906	1907	1908	1909	1910	1911	1913	1914
Sándor halmi Deutsch	10			100	100	100				
Izidor Déry	10	50	50	50	50	50	100	100		
Henrik Fellner	5									
Lajos Gerisch	10	30				30	30	30	50	50
Károly Haggenmacher	10	100	100	100	100	100		100	150	150
Kálmán Kovácshegyi	1									
Jakab Lang	10									
Ede Langfelder	10	100	100	100	100	100	100	100	150	150
Leó Lánczy	10									
Vilmos Leipziger	10	100	100	100		100				
Miksa Löwy	10	50	50	50		50	50	50	50	50
Ottó Mayer				100	100	100	100	100	100	150
Rezső Renschler	10	30	30			30				
Henrik rátonyi Reusz	10		50			50	100	100	100	150
Jakab Schuk	10	30	60	30	30	30	30	30		
Ferenc Waigand	10	100	100	100	100	100	100	100	100	150
Number of shares of stock owned by them	136	590	640	730	580	840	610	710	700	850
Shares of stock owned by them as a percentage of the total number of shares in the company (%)	3.0	13.1	14.2	16.2	12.9	18.7	13.6	15.8	15.6	18.9
Total number of shares of stock presented at the assemblies	1853	1190	1180	1280	1030	1350	1150	1290	1470	1460
Total shares of stock presented at the assemblies as a percentage of the total number of shares in the company (%)	41.2	26.4	26.2	28.4	22.9	30.0	25.6	28.7	32.7	32.4

Table 3: Shareholdings of the “network people” on the basis of general meetings of the Pest Millers and Bakers’ Steam Mill Company between 1904 and 1914

39 Kővér, “A részvényesek névjegyzéke mint társadalomtörténeti forrás,” 123.

	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913	1914
Sándor halmi Deutsch		125	125	125	125	200					
Izidor Déry	377	250	125	<i>Represented</i>	125	200	200	200			
Henrik Fellner				250	125	200	200		200		
Lajos Gerisch							200	200	200	200	200
Károly Haggenmacher		125	125	125	125	200	200				200
Ede Langfelder		125	125	375	125	200	200	200	200	200	200
Leó Lánczy				<i>Represented</i>							
Vilmos Leipziger		125		<i>Represented</i>	125						
Miksa Löwy		125	125	125	125	200	200	200	200	200	200
Ottó Mayer				125	125	200	200	200	200		200
Henrik rátonyi Reusz		125	125	125		200	200	200	200	200	200
Ferenc Waigand				125	125	200	200	200	200		200
Number of shares of stock owned	377	1000	750	1375	1125	1800	1800	1400	1400	800	1400
Shares of stock owned as a percentage of the total number of shares in the company (%)	4.3	11.4	8.6	15.7	12.9	20.6	20.6	16.0	16.0	9.1	16.0
Total number of shares of stock owned by people present at the assemblies	1146	2000	1875	2375	1875	3200	2800	2800	3000	2400	3000
Total shares of stock owned by people present at the assemblies as a percentage of the total number of shares in the company (%)	13.1	22.9	21.4	27.1	21.4	36.6	32.0	32.0	34.3	27.4	34.3

Table 4: Shareholdings of the “network people” on the basis of general meetings of the Lujza Steam Mill Company between 1904 and 1914

A note on the terminology: “Represented” means that the given person was represented at the general meeting by another shareholder, and there isn’t any information about the number of his shares.

At the same time, one cannot merely assume that these individuals were members of an organized “network,” rather, one must demonstrate this, so it is worth taking a closer look at the names. The first distinct group that emerges consisted of the highly trained steam mill specialists who were employed at First Budapest, including the head clerk, the company director, the chief accountant, the technical and trade director, and the general manager.<sup>40</sup> One also discerns another group among the people who had ties to First Budapest, namely people who were members of the board of directors or the supervisory committee.<sup>41</sup> The third group consisted of the general managers of the two mills that had been drawn into the sphere of interest of First Budapest, Ferenc Waigand from Pest Millers and Bakers and Izidor Déry from Lujza. The fourth group was made up of bankers, and they seem to have been the “key” to this network. Leó Lánczy, who had been a member of the board of directors of First Budapest since 1895, had served as the president of the Pesti Magyar Kereskedelmi Bank Rt. (Hungarian Commerce Bank of Pest) since 1881. He was also president of the Budapest Chamber of Commerce and Industry and a member of parliament.<sup>42</sup> Henrik Fellner, who became a member of the board of directors at Lujza in 1904 and then at First Budapest in 1907, served as managing director of the Hungarian Commerce Bank of Pest between 1882 and 1911 and then became the head of Leipziger’s spirits and sugar factory.<sup>43</sup> (Vilmos Leipziger himself had a close connection to them, and it was hardly coincidental that after Lánczy’s first appearance in 1895 on the board of directors of First Budapest, Leipziger also became a member of the board, nor is it surprising that Fellner became the head of the Leipziger factory after 1911, though it is true that Leipziger himself was not a banker.)

Thus, if one considers the positions played by these individuals in the companies and the influence they exerted as shareholders, the essence of the statement made in the 1903 report issued by the First Budapest board of directors becomes clear and vivid: “*cooperation* among three such prominent enterprises, each of which has a production capacity exceeding three-million [quintals] per year.” Positions of influence and ownership of significant quantities of stock

40 By name: Lajos Gerisch, Károly Haggemacher, Kálmán Kovácshegyi, Jakab Lang, Ede Langfelder, Ottó Mayer, Rezső Renschler, Jakab Schuk.

41 By name: Sándor Deutsch, Vilmos Leipziger, Miksa Löwy, Henrik rátonyi Reusz.

42 For more on Lánczy’s life and career see Károly Halmos, “Lánczy Leó. Hagyomány és nonkonformizmus egy bankvezér történetében,” in *Sokszínű kapitalizmus. Pályaképek a magyar időkés fejlődés aranykorából*, ed. Marcell Sebők (Budapest: KFKI Csoport – HVG Könyvek, 2004), 180–95.

43 *Zsidó lexikon*, 1929 (the entry on Fellner).

helped ensure that Pest Millers and Bakers and Lujza would come and remain under the supervision and sway of First Budapest, and in the background the Hungarian Commerce Bank of Pest could wield its influence to further its interests.

Presumably, First Budapest adopted a similar strategy when it drew the Erzsébet [Elisabeth] Steam Mill Company into its sphere of interest in 1912. The overlaps in individuals who served in positions of influence at both companies were also accompanied by the acquisition of stock, in all likelihood through the voluntary exchange of shares. The report of the First Budapest board of directors on financial year 1912 certainly suggests this.<sup>44</sup> However, none of the lists of shareholders in the Elisabeth Steam Mill Company after 1880 survives, and we do not even know what kinds of exchanges were offered to Elisabeth shareholders. The Hungarian Commerce Bank of Pest, however, definitely had a presence among the leaders of this company. In 1908, Fülöp Weisz, who had begun his career at the Commerce Bank in 1891, became a member of the board of directors of Elisabeth. By that time, he was already on the board of directors at the bank. In 1911, he became the executive director in his bank, and after the death of Lánczy in 1921 he became the president.<sup>45</sup>

### *The Expansion of the First Budapest Steam Mill Seen from Below*

Expansion of the First Budapest Steam Mill Joint Stock Company, however, went beyond drawing the Pest Millers and Bakers, Lujza, and later Erzsébet into their “spheres of interest.” In 1916, they exerted their influence on the Pesti

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44 “The increase in share capital that was agreed on during the general meeting held on November 6, 1911 has been accomplished through the issue of 2,875 new shares at a nominal value of 500 crowns each. This year, an increased share capital of 6,500,000 also appears on our balance sheets. The *acquired shares* in the Erzsébet Steam Mill Company are included in the ‘securities-receipt,’ and the earnest that came in on the 1,013 newly issued shares of stock that was issued for the old shareholders was used to cover the refund of interest and add to the reserve funds, after the costs that arose had been deducted.” (BFL XI.1005. 5. d. Display setting in italics is mine). One can only hypothesize, on the basis of this, that 1,862 new shares of First Budapest stock were used in order to obtain, through exchange the Erzsébet stock. Using the market prices as the basis for comparison, they must have asked for at least three and possibly four shares of Erzsébet stock in exchange for one share of First Budapest stock. The nominal value of one share of Erzsébet stock was 400 crowns. In December 1911, the stock closed at a price of 450 crowns. One share of First Budapest stock, with a nominal value of 500 crowns, was being traded at 1,690 crowns on the market at the same time. (*Tőzsdelap*, 1911).

45 József Radnóti, *Pesti pénzülgarchák* (Budapest: May János Nyomdai Müintézet, 1929). Chapter on Weisz.

Hengermalom Rt. (Pest Rolling Mill Joint Stock Company), which remained independent until 1928, at which point it merged with First Budapest. The case of Pest Rolling Mill differs from that of the other three corporations simply because primary sources have survived that offer insights into the moment when the corporation joined the “sphere of interest” of the First Budapest Steam Mill. In addition, the extraordinary primary sources may also further an understanding of the actual meaning of the expression “belonging to the sphere of interest,” as well as the role that was played by the Hungarian Commerce Bank of Pest.

The minutes of a meeting survive which provide written documentation of how the corporations entered into contact with each other. It is quite telling that the documents were found not in the archives of the companies themselves or the Hungarian Commerce Bank of Pest, nor were they among the office records of the registry court. Rather, they were in a family bequest.<sup>46</sup> The minutes of the meeting were taken on February 9, 1916, and six people took part in the meeting.

...recorded [...] during the meeting of the representatives of the Hungarian Commerce Bank of Pest, specifically his excellency privy councillor Leó Lánczy and Henrik Fellner, members of the board of directors of the Hungarian Commerce Bank of Pest, and also the board of directors of the First Budapest Steam Mill Company, represented by members of the board of directors his excellency privy councillor Leó Lánczy, Henrik Fellner, and general manager Ede Langfelder, as well as member of the Upper House Sir Konrád Burchard-Bélaváry, Dr. Rezső Burchard-Bélaváry and Dr. Andor Burchard-Bélaváry, the three of whom are representatives of the majority of the shareholders of the Pest Rolling Mill Joint Stock Company.

Thus, Lánczy and Fellner represented both First Budapest and the Commerce Bank. The meeting was held at the home of Konrád Burchard-Bélaváry,<sup>47</sup> which means that, in addition to constituting an official record of the discussion, the minutes were also the product of an unofficial and private talk. The parties to the negotiations pledged in writing (and affirmed with their signatures) that

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46 I would like to express my sincerest thanks to Konrád Reuss for this document, which remains in his possession today. The italics in the citations from the document are my emphasis.

47 For more on the Burchards and the history of the Rolling Mill, see Klement, *Hazai vállalkozók a hőskorban*, 212–39. Konrád Burchard-Bélaváry was the president of the Rolling Mill Company. His sons were members of the directorate. Rezső was on the board of directors and was also the vice president of the company. Andor was on the board of directors and also served as managing director.



until February 17, “the regulations... would remain in word only.” They planned to hold the annual general assembly of First Budapest by February 17, since they needed the authorization of the general meeting in order to execute several points of their agreement. With the proper authorizations, the minutes would become a “legally binding [...] agreement.” (And this did in fact come to pass, as they had expected it would.) Lánczy was the president of the six-person “sitting.” Langfelder kept the minutes.

Leó Lánczy [...], having opened the meeting, states that he turned to the representatives of the abovementioned majority of shareholders in the First Budapest Steam Mill Company and the Pest Rolling Mill Joint Stock Company *with the idea that the Pest Rolling Mill Company join with the First Budapest Steam Mill Joint Stock Company.*

According to the minutes, First Budapest sought to establish ties with Pest Rolling Mill, and Ede Langfelder, acting on behalf of First Budapest, had already discussed the preconditions of a closer relationship between the two enterprises before the meeting was held with Rezső Burchard-Bélaváry, representing Pest Rolling Mill. The proposal made by First Budapest should seem familiar: a voluntary exchange of Rolling Mill stock for stock in First Budapest, “in a manner, however, that ensures that the Pest Rolling Mill Company will remain an independent shareholder company.” According to the concrete offer, First Budapest offered one share of its stock in exchange for four shares of stock in Pest Rolling Mill. Anyone who did not wish to take advantage of the exchange could keep their shares of Pest Rolling Mill stock or could sell it to First Budapest for 400 crowns per share in cash. This offer also seemed reasonable, since shares of stock in First Budapest, which had a nominal value of 500 crowns, were fetching 1,860 crowns on the market, while shares of stock in Pest Rolling Mill, which had a nominal value of 300 crowns, were selling for between 300 and 400 crowns on the market in the years leading up to World War I.<sup>48</sup>

The real value of the minutes, which contained fourteen points, lies in the fact that they shed light on the regulation of details of an affair that was already familiar. For instance, the minutes make clear that the preliminary negotiations touched on the question of the operational and strategic leaders of the company that was being absorbed. The minutes also make note of the stipulation that the members of the board of directors and the supervisory board of Pest Rolling

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48 *Tőzsdelap*, 1910–1916.

Mill would be allowed to keep their positions in the future, as would the managing directors and white-collar workers. Furthermore, First Budapest offered separate five-year contracts to Károly Stumpf and Andor Burchard-Bélaváry, who had served as managing directors at Rolling Mill, as well as Boldizsár Luby, a wheat buyer, alongside their salaries at the time. These three men were responsible for the everyday operational management of the company.

The fifth point of the minutes stipulates that the next Rolling Mill general meeting had to elect four board of directors' members and two supervisory committee' members from First Budapest. According to the text, "the board of directors of First Budapest will disclose the names of the men that it will choose for the board of directors and the supervisory committee of Rolling Mill *at a fit and proper time.*" As the First Budapest leaders ensured in advance their new members of the governing body, they put it in writing, and they appended the new articles of association of Rolling Mill to the minutes as well, on which the following general assembly, to be held in March, had to vote. The eleventh point of the minutes indicates that, as the parties had agreed, Rolling Mill would also send a representative, specifically Konrád Burchard-Bélaváry, to serve on the board of directors of First Budapest:<sup>49</sup> "[The] Hungarian Commerce Bank of Pest, *as the owner of the majority share of First Budapest, [...] guarantees implementation of this choice.*" In other words, the real significance of the Commerce Bank, which consistently referred to itself as a "mediator" in the case, lay in its influence as the majority shareholder of First Budapest Steam Mill Company. The agreement also specifies that Konrád Burchard-Bélaváry would remain president of Rolling Mill and Rezső Burchard-Bélaváry would remain vice president, and, furthermore, that Rezső would succeed Konrád as president and would be paid an honorarium of 10,000 crowns per year.<sup>50</sup>

The details concerning the exchange of shares are covered in several points. The "task" of the Burchards was "to support and facilitate to the best of their ability the implementation of the intended transaction" and to "pledge

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49 Were Konrád Burchard-Bélaváry to resign or die, his place on the First Budapest Board of Directors was to go to his son, Rezső. As it so happened, Konrád, the president of the Rolling Mill Company, died in June of that year of colon cancer. In other words, in February he may already have known that he was dying.

50 The presidents of joint stock companies were always members of the board of directors, and the articles of association specified their remuneration. The fact that there is mention in the document of an honorarium suggests that they had reached an agreement with Rezső Burchard-Bélaváry concerning a sum that was to be paid in addition to the payment he would receive as a member of the board, perhaps in exchange for his help in bringing the negotiations to a fruitful close.

to trade 4,040 shares of Rolling Mill stock for shares in First Budapest in the abovementioned way.” Rolling Mill had 8,000 shares of stock in circulation on the market, thus the three Burchards (Konrád, Rezső, and Andor) themselves provided the majority of the shares for the undertaking. According to the agreement, the Hungarian Commerce Bank of Pest would inform shareholders in Rolling Mill of the chance to exchange their stock, and the text of this notice was also appended to the minutes. It is worth citing the beginning of this text:

We have the pleasure to inform you that an agreement has been reached, with our intercession, among the representatives of the majority of shareholders in the Budapest firm, First Budapest Steam Mill Company, and the Pest Rolling Mill Company. This agreement has as its goal the nurturing of a *closer relationship* between the Pest Rolling Mill Company and the First Budapest Steam Mill Joint Stock Company. This agreement can only have a positive impact on the production and trade relations of both enterprises, not to mention the profitability of the stock.

The “intercession” of the Commerce Bank also meant that the bank would take possession of the Rolling Mill shares in exchange for a temporary voucher and then would deliver these shares in exchange for First Budapest shares when these First Budapest shares were issued, which would take place after the following general assembly of First Budapest had authorized an increase in the capital. The Rolling Mill shareholders would not have to pay any of the costs of this exchange of shares, as First Budapest and the Commerce Bank had agreed to cover them.<sup>51</sup>

The contract contained specific provisions concerning the fate of the First Budapest shares that were to be given in exchange for the Rolling Mill shares. The owners-to-be of the 1,010 shares of First Budapest stock that were received in exchange for the 4,040 shares of Rolling Mill stock owned by the Burchards were bound by the terms of the contract not to sell the stock without the express permission of the First Budapest board of directors “for the moment for a period of nine years, i.e. until the expiration of next mandate of the First Budapest board of directors,” i.e. until 1925. Indeed, the contract also stipulated

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51 Every transaction involving securities had costs. For instance, when a buyer purchased registered shares of stock, the transfer of the stocks to the name of the buyer had a cost per share, which was paid by the buyer. In this case, the Commerce Bank and First Budapest agreed to cover all of these kinds of additional costs.

that, “these shares should be disposable at the request of the First Budapest board of directors on the occasions of the First Budapest general meetings with the goal of having its motions passed. In the interests of this goal, these share owners should present their shares before each individual general meeting of First Budapest at a time and place specified in the articles of association.” These conditions applied, according to the minutes, to every new share of First Budapest stock that the three Buchards or “a majority group represented by them” received as part of the exchange. If they wished to sell shares, they had to give First Budapest or a company named by First Budapest the first right to buy. First Budapest wished to keep a close watch on the ownership of its shares of stock in the hands of the Burchards:

In December 1924 and every five years thereafter (1929, 1934, etc.), Misters Burchard-Bélaváry must declare in writing to the First Budapest board of directors whether they intend to maintain the block specified in these minutes on the sale of the shares of First Budapest stock in their possession for the duration of the next five-year mandate of the First Budapest board of directors.

The second-to-last point of the minutes clarifies what is meant by the phrase “belonging to the sphere of interest”: in questions pertaining to management, in the future Rolling Mill would have to cooperate continuously with First Budapest:

The drafting and finalizing of the Rolling Mill balance sheets for December 31, 1915 and the presentation of a motion to be made to the Rolling Mill general assembly on the question of how to use net profits will take place with the *cooperation of the First Budapest board of directors and with their consent.*

Undeniably, the market position of the First Budapest Steam Mill Company was continuously growing stronger in the first decade of the twentieth century. In other words, one cannot venture any conclusions concerning the contracts that were concluded between First Budapest and Pest Millers and Bakers and First Budapest and Lujza in 1904 or between First Budapest and the Elisabeth Steam Mill Company in 1912 (these contracts have not survived) simply on the basis of the strategies that were adopted by First Budapest in the acquisition of Pest Rolling Mill in 1916. Those contracts may well have been significantly different, but one can be quite sure that they devoted similar attention to detail when addressing questions of the various levels of strategy and operations, the

precise implementation of the exchange of stock, the ways in which the shares of First Budapest stock that were obtained by the leaders of the companies that were brought, as a consequence of the exchange, into the sphere of interest of First Budapest would be handled, and the future forms of cooperation between the enterprises.

The distribution of the shares of stock in Pest Millers and Bakers and Lujza and the agreement discussed above that was reached with Pest Rolling Mill clearly indicate that, as a result of the transactions, First Budapest obtained a majority share in all four enterprises. Undoubtedly, First Budapest needed the support of a bank in order to finance and arrange these acquisitions, which were provided by the Hungarian Commerce Bank of Pest. The representatives of First Budapest then occupied operational and strategic positions at the other companies. Thus, all four enterprises found themselves in a close relationship with First Budapest. However, this was not a one-directional relationship that was entirely dictated by First Budapest. Rather, as a consequence of the agreements that were reached with the companies that were drawn into its sphere of interest, the earlier leaders of these companies for the most part occupied positions on the First Budapest board of directors. They supported its operations by giving their consent, and were also present at the general assemblies of the other companies as shareholders. First Budapest was in the center of the network, and the Hungarian Commerce Bank of Pest was right behind it, but there were also ties between the companies that worked together with them.

It is a bit difficult to find a precise term with which to describe what came into being as a result of the whole process. It was not quite a merger, since the companies continued to operate individually, legally. They had their own independent stocks, which were sold on the market, and they had separate balance sheets and issued annual reports. At the same time, the form of cooperation that emerged was more than a cartel. Certainly, the joint stock mill companies that were in the network harmonized their production efforts, their market presence, and no doubt their prices, but they were bound by more than a mere cartel agreement, since they were also linked by majority ownership. This was almost a

kind of national cartel<sup>52</sup> or quasi-merger.<sup>53</sup> It was, in any case, an unambiguous example of *interlocking directorates*.

Individuals who played roles both in banking and industry were in the foreground of research on interlocking relationships. In the secondary literature, which used to cast personal ties between banks and industrial undertakings as unambiguous examples of the power and sway of banks, a consensus has gradually emerged according to which the relationships, which were motivated by and based on shared interests, were far more complex and subtle, and took a variety of forms.<sup>54</sup> In the case of First Budapest and the Hungarian Commerce Bank of Pest, one cannot speak of a relationship of domination by the bank. In other words, the bank did not control the industrial enterprise. The bank did not directly control the mills. The Pest Millers and Bakers' Company did not have even a single banker on its board of directors, and the other mill companies had only one, mostly. The bank was a majority shareholder of First Budapest,<sup>55</sup> and First Budapest and/or the Hungarian Commerce Bank of Pest became majority shareholders of the Pest Millers and Bakers' Steam Mill Company, the Lujza Steam Mill Company, the Erzsébet [Elisabeth] Steam Mill Company, and the Pest Rolling Mill Company. Business management was unquestionably handled by First Budapest. Bankers rarely “wound up” in decision-making positions. I can only suggest that the mills and the bank were in continuous agreement throughout the process of absorbing the other companies into First Budapest. The Pest Millers and Bakers' Steam Mill Company, the Erzsébet Steam Mill Company, and the Pest Rolling Mill Company continued to function as independent enterprises until 1928, and Lujza Steam Mill Company stayed in business until 1936.

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52 National cartels were not at all rare things at the time: Harm G. Schröter, “Cartelization and Decartelization in Europe, 1870–1995: Rise and Decline of an Economic Institution,” *The Journal of European Economic History* 25, no. 1 (1996): 129–53.

53 Béla Tomka uses this term to designate the relationship between Lujza and First Budapest. He examined the question from the perspective of the Hungarian Commerce Bank of Pest. Béla Tomka, *Érdek és érdekeltenség. A bank-ipar viszony a századforduló Magyarországon, 1892–1913* (Debrecen: Multiplex Media–DUP, 1999), 128.

54 For more on the circumstances and conditions in Hungary see Ágnes Pogány, “Bankárok és üzletfelek. A Magyar Általános Hitelbank és vállalati ügyfelei a két világháború között,” *Replika* 25 (1997): 55–66; Béla Tomka, “Személyi összefonódás (interlocking directorates) bankok és iparvállalatok között a századforduló Magyarországon,” *Replika* 25 (1997): 37–46; Tomka, *Érdek és érdekeltenség*.

55 *Ibid.*, *Érdek és érdekeltenség*, 179. The lists of First Budapest stock consignments only survived up until 1892.

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