

**FINANCIAL INTERMEDIATION IN A MULTILINGUAL STATE:
THE CASE OF SLOVENE CORPORATE BANKING
IN AUSTRIA, 1900 - 1912***

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Within Austria, by which I mean the Cisleithan portion of the Dual Monarchy, the generally prosperous years between 1898 and 1912 were marked in the banking industry by two opposing developments. On the one hand, there was a tendency for the concentration of financial capital in the hands of large Vienna banks. On the other, this period witnessed the rapid growth of corporate banking within the non-German territories of Austria and the emergence of new financial centers, Prague in particular. It is this second development which is unique for Austria, reflecting its multi-ethnic composition.

The evolution of Czech banking during Austria's industrialization has been researched by Richard L. Rudolph.¹ Another study by Bernard Michel,² covering banking within the entire Austrian portion of the Habsburg Monarchy since the turn of the century, examines the banking activity against the background of the strivings of the Czechs, Slovenes and other Austrian Slavs for their national and economic emancipation. However, neither author attempts to link the observed autonomous tendencies in banking to the causes inherent in the coalescence of regional linguistic distinctiveness and the communication-intense nature of financial intermediation. It is the purpose of this paper to explore the reasons for the emergence of ethnically specific financial institutions, using Slovene corporate banking within Austria as an example.

RESEARCH SOURCES

The sources for the study of Slovene joint-stock banks are not abundant. The only archival item which I have been able to locate in Slovenia is a hand-written, leather-bound volume inscribed "Kronika Ljubljanske kreditne banke", preserved in the Zgodovinski Arhiv Ljubljana under the signature "Zbirka Dušana Omahna." In this official chronicle, activities of the Ljubljanska Kreditna Banka are summarized on an annual basis for the period 1900-1941.

Another item in the aforementioned collection by Dušan Omahen is the typescript "Zgodovina slovenskih bank" by Drago Potočnik. The author, who served as economic editor of the Ljubljana daily Slovenec during the interwar period, apparently completed his manuscript before 1946. It is a detailed history of individual Slovene banks and of branches of outside banks in Slovenia up to 1943. In the statistical appendix to Potočnik's study one finds annual balance sheet data for the Ljubljana banks. There is also a listing of the officers of each bank and of the period of their service. The part which covers the period before 1913 was published in the late 1930s,³ when Potočnik also published a shorter survey of Slovene banking.⁴ His survey of the effects of World War II on Slovene banking was published in mimeographed form after the war.⁵

The series of annual reports of major banks can be pieced together from holdings in the Narodna in Univerzitetna Knjižnica, the Centralna Ekonomska Knjižnica and the Narodna Banka Slovenije—all in Ljubljana—but some lacunae remain.

In Trst/Trieste, the historical section of the Narodna in Študijska Knjižnica preserves a portion of the archive of Jadranska Banka. Included are items of correspondence with clients, providing insight into the terms of loan contracts. The minutes

of meetings of the administrative council and of other bodies of the bank are not now included in the archive, even though, in 1965, Božidar Kosmin examined the archive and summarized the information he found in the minutes of the meetings of the administrative council and in the minutes of the shareholders' meetings for the period 1905-1912. Kosmin transmitted his summary, along with the original minutes, to a recipient whose identity can not be established on the basis of a copy of the summary included in the archive collection.

In Vienna, the Finanzarchiv preserves documents submitted by the Interior Ministry to the Finance Ministry as part of the procedure for governmental approval of incorporation of joint-stock companies. Such files are available for all three Slovene joint-stock banks of the Austrian period, namely Ljubljanska Kreditna Banka (founded in Ljubljana in 1900), Jadranska Banka (Trieste, 1905) and Ilirska Banka (Ljubljana, 1916). Included are listings of initial capital stock subscribers and listings of holders of shares submitted for voting at each meeting of the constituent shareholders.

Information on Slovene banks is included in information on banks in Austria, and later in Yugoslavia, in individual volumes of *Compass: Finanzielles Jahrbuch*, the Austrian equivalent of Standard & Poor's financial guides. Moreover, statistical data for all Austrian banks have been published in special volumes of the *Österreichische Statistik*.⁶ Some historical information is included in articles pertaining to Slovene banking which appeared in *Bankarstvo* (Zagreb) during the 1920s.

The aforementioned secondary sources by Potočnik and Michel have been recently augmented by articles in which I have treated in detail the financial aspects of Slovene corporate banking up to 1941⁷ and its innovative role up to 1930.⁸

THE ANALYTICAL APPROACH

Since the differentiation among various ethnic groups constituting Austria was drawn along linguistic lines, and since linguistic policy occupied a central place in Austrian politics, it seems appropriate to focus on the linguistic aspect of interethnic relations. Moreover, this aspect lends itself to economic analysis because in a multilingual environment the choice of language used in any given functional domain can be evaluated on the basis of relative costs.

Take a linguistic region in which a second, dominant language is being used as the vehicle of communication in domains associated with such service activities as public administration, secondary and/or higher education, and banking. This imposes the cost of learning the dominant language upon members of the indigenous population aspiring to occupations from which their language is excluded. Under conditions of a traditional, stationary economy, the explicit as well as implicit costs incurred by learners of the second, dominant language are in the aggregate likely to be less than the cost of additional resources needed to introduce the indigenous language into the domains from which it is excluded. However, as in the course of economic development employment in urban service activities increases, the substitution of the dominant language by the indigenous, regional one may become the rational solution.

Such a solution is likely to be resisted by the dominant language group which derives external benefits from the fact that others are investing in the learning of the dominant language. These external benefits are analogous to the extension of telephone service that is provided by new subscribers for existing subscribers, by increasing at no cost to the latter the number of available communication channels.

The preceding model, which I have treated in greater detail elsewhere,⁹ allows for

viewing the nationalities struggle in Austria as a conflict which hinged on the distribution of costs and benefits associated with any given linguistic arrangement. Until the flaring-up of the linguistic conflict, which paralleled economic development and modernization in evidence during the nineteenth century, the configuration of linguistic domains within the various Austrian provinces remained relatively stable. In regions in which one of the Slavic languages was the popular language, German played the role of the dominant institutional language. As long as the traditional economy prevailed, this linguistic arrangement could be maintained, with each of the two languages meeting the communication needs of a distinct but relatively stable socio-economic group. German was used in activities at the upper end of the occupational and social hierarchy, while indigenous languages served broad masses of the population.¹⁰ A bilingual group facilitated the relatively limited amount of communication between the two spheres.

An economic consequence of the linguistic conditions described was that individuals whose primary language was not German had to assume the cost of learning German in order to enter occupations from which their language was excluded. As long as opportunities for upward social mobility remained limited, the aggregate social cost of such linguistic adaptation did not loom large. The situation changed as in the course of modern economic development occupational and social mobility as well as the communication flows increased, and with this the aggregate cost of linguistic adaptation. Under such conditions, making the leading institutions conform linguistically to the broad popular masses became a less costly solution than assuming the mounting social costs of learning German as a second language.

The urgency of substituting German by indigenous languages varied directly with the intensity of communications in a given activity. I note that service activities tend to be more communication-intense than activities involving material production. Thus an extractive industry falls at the lower end of the communication-intensity spectrum, especially if the service components of the production and distribution process, such as financing and marketing, are detached from physical production. Since the latter requires a minimal amount of communication, it can be carried out in a non-dominant language region without upsetting the traditional dominant vs. non-dominant language balance.

The opposite applies to communication-intense pure service activities, such as financial intermediation, with which this paper is concerned. By singling out just one facet of financial intermediation, that of lending, it becomes immediately apparent that the volume of communications associated with establishing the credit-worthiness of the borrower and negotiating and securing a loan is significant. Also, the smaller the average loan, the greater the amount of communications associated with a given volume of business. It follows that institutions specializing in small business and agricultural lending require a relatively larger volume of communications than, say, investment banks, even though the respective information flows may not be of comparable complexity.

Small wonder that German-Austrian institutional financial intermediaries failed to penetrate the Slavic countryside, and that this task fell entirely to indigenous initiative. Thus the problem of institutionalizing regional languages was not limited to substituting German by regional languages in existing institutions such as public administration, but extended to new institutions essential to modern development.

My earlier empirical research, based on data for the Slovene lands, tends to confirm the positive linkage between institutionalization of regional languages and economic

growth. In lands with favorable conditions for the institutionalization of Slovene, especially in Carniola, the rise in the share of non-agricultural population during the period between 1880 and 1910 was more pronounced than where such institutionalization was being hampered by German-Austrian opposition, as, for example, in Slovene Carinthia.¹¹

As for financial intermediation *per se*, David F. Good¹² has shown that between 1880 and 1910, at any level of savings per capita, the rate of interest was systematically higher in non-German than in German linguistic regions of Austria. In his discussion of an earlier version of this paper, Professor Good remarked that higher communication costs of German-Austrian financial intermediaries provide a reasonable explanation of the observed interest-rate differentials. The fact that in Austria the interest bias observed by Good declined over time, reinforces the linguistic hypothesis: by adopting regional languages the emerging Slavic banks lowered communication costs, thus increasing the institutional supply of loanable funds.

Finally, J.W. Christian and E. Pagoulatos¹³ found a greater rate of accumulation in developing countries with their own institutional financial intermediation than in countries depending on foreign intermediaries. The causal nexus may again lie with linguistic difference, although this aspect has not been treated explicitly by the authors.

INTEGRATING THE PRIMARY CIRCUITS OF CAPITAL SUPPLY

Narrowing the focus to the Slovene scene, one can observe that the drive for the institutionalization of Slovene paralleled the economic transformation during the second part of the nineteenth century, and it gained momentum as the pace of economic growth quickened during the first decade of this century.¹⁴ The changes were ushered in by the Vienna-Trieste railroad, which reached Ljubljana in 1849. Construction of additional lines continued into the twentieth century and was financed by both state and private capital.

In the wake of the railroads there sprung up modern industries which supplanted smaller traditional enterprises and expanded the utilization of existing human and natural resources. Although most of these industries were started by local entrepreneurs, their expansion depended on outside capital, leading to ultimate absorption or control by firms located outside the region, in centers affording external economies in financing and marketing. Thus the expansion of coal mining in the Trbovlje Basin took place under the aegis of Trifailer Kohlenwerkgesellschaft, a Vienna-based corporation, which acquired the existing mines from local owners in 1873. The modern paper industry in the Ljubljana Basin, a creation of the local entrepreneur Fidelis Terpinč, was consolidated with Leykam of Vienna into Leykam-Josefsthäl AG in 1870. In 1891, the Berlin bank Born und Busse acquired controlling interest in the Jesenice steel complex of the Krainische Industriegesellschaft of Ljubljana.

Inflow of outside capital into large-scale industries indicates that on the supply side Slovene lands were linked to the Austrian and international industrial capital market. However, this inflow of capital was at least in part offset by exports of capital by a few existing local financial intermediaries, the largest of which was the Krainische Sparkasse of Ljubljana. Its liabilities consisted in the main of local savings deposits, while on the assets side securities (public bonds and annuities) issued outside of Slovene lands figured prominently. The ability of this German-language savings bank to attract local deposits reflects the relatively low communication content of the depository activity. On the other hand, the bank's preference for outside securities over

communication-intensive investment in the local mortgage market suggests a linguistic barrier attributable to the dominant vs. non-dominant language dichotomy. The degree of linguistic impermeability of German-language financial intermediaries is well illustrated by the policy of a similar savings bank in Celje, the Sparkasse der Stadtgemeinde, which refused mortgage loans on any property for which the official title abstracts were issued in Slovene.¹⁵ The response of Slovenes, who controlled the political districts surrounding Celje, was to organize their own savings bank in that city, Južnoštajerska Hranilnica, in 1889. Similar savings banks, referred to as *regulativne hranilnice* because they operated under regulations issued by the Court Chancery in 1843, were organized by Slovenes in other towns. Deposits in these public institutions, of which the Mestna Hranilnica Ljubljanska (founded in 1887) was the largest, were guaranteed by local governments. Deposited funds were channeled into loans for construction of local housing, schools, and public utilities. The contrast with local German savings banks, which exported capital, emerges from a comparison of the ratio of mortgages and loans to securities, which, for 1908, was 4.18 for the Mestna Hranilnica Ljubljanska and 1.58 for the Krainische Sparkassen.¹⁶

The establishment of public savings banks in urban centers was paralleled by the development of a network of lending cooperatives in the countryside, where the demand for credit had been previously met by local usurers in a highly fragmented market. By 1910 the number of credit cooperatives reached 543, covering the entire Slovene ethnic territory in Austria from Djekše/Diex in the north to Trieste and Koper in the south. Lending cooperatives lowered financial costs in the countryside by spreading the risk according to the "law of large numbers" and by standardizing certain types of transactions. Moreover, in comparison to individual lenders, the default risk was reduced by better expertise.¹⁷ These advantages were further enhanced by financial services provided by larger city-based lending cooperatives and by cooperative federations to smaller lending cooperatives.

By lowering transaction costs and by mobilizing consumers' savings, the cooperatives were able to provide loans at a low rate of interest. As early as 1884, a survey of lending conditions conducted by the Carniolan provincial government revealed that interest rates charged by individual private lenders ranged between 10% and 24%,¹⁸ while interest charged by lending cooperatives averaged only 6%.¹⁹ As the number of lending cooperatives increased, beneficial effects began to be felt throughout the farm and small-business sector. Functioning as a system, the lending cooperatives brought about the integration of the primary capital supply circuits, an indispensable part of overall economic development and modernization.²⁰

THE EMERGENCE OF CORPORATE BANKING

The extension of financial capillaries to farms and other households through lending cooperatives was followed by the development of a higher stage of financial intermediation through the introduction of corporate, joint-stock banks. These institutions, which provided both short-term commercial credit and facilities for long-term corporate financing, were traditionally concentrated in Vienna: as late as 1897, joint-stock banks outside of Vienna accounted for only 18 percent of the total capital stock of all joint-stock banks.²¹ Thus, with the exception of Prague and possibly Trieste, the provinces were conspicuous by the absence of what has been referred to as *Bankkultur*.²² German-Austrian and Slovene Alpine lands did not differ in this respect. Vorarlberg, Tyrol, Salzburg and Carinthia had no corporate banks at all. In Styria, the Steirische Eskomptebank of Graz was of modest size, as was the Marburger

Eskomptebank of Maribor. In Carniola, the sugar crisis of 1884 had forced the Krainische Escomptegesellschaft of Ljubljana to close its doors in 1885. Trieste, although boasting its own banking tradition, was by 1890 no longer functioning as an intermediary between Austrian and Italian financial markets; and the local Banca Commerciale Triestina was losing ground to Viennese branch banks even before it came under the control of the Wiener Bankverein in 1904.²³

Against this background the emergence of Slovene corporate banking in 1900, and its subsequent rapid growth, appear somewhat paradoxical, unless one takes into account the specific social developments sketched in the preceding sections. As early as 1872 a Maribor publisher-politician, Janko Pajk, anticipating the qualitative growth of indigenous financial intermediation, declared: "Let us organize lending cooperatives, and they will be soon followed by banks. Until we develop our own financial institutions, we will be far from national independence."²⁴

To be translated into action, such visions required a coalescence of economic interests, which could be found in the demand for credit by medium-size commercial enterprises on the one hand and the expansion of Czech capital beyond the boundaries of Bohemia on the other. I note that Ljubljana wholesalers represented the largest group, 29 percent, of individual subscribers to the initial stock offering of the Ljubljanska Kreditna Banka [hereafter LKB], which was incorporated in Ljubljana in 1900. Merchants, craftsmen and manufacturers comprised 21 percent, professionals another 21 percent, administrators 17 and land-owners 12 percent.²⁵ Clearly, medium-sized local businesses were interested in a Ljubljana-based corporate bank. However, in the total initial stock offering of the LKB, individual subscribers represented only 36 percent, and nearly all of them limited their investment to ten shares, or 4,000 crowns. The fact that investors were less than sanguine about investing in this, or for that matter in any joint-stock company, is in part explainable by the failure of an earlier Slovene corporate venture, Prva Občna Zavarovalna Banka Slovenija. This insurance company, which had been founded in 1871, during the prosperous *Gründerzeit*, and which had opened offices throughout Austria, could not survive the depression which followed the Vienna financial crash of 1873.²⁶ The failure of Slovenija left a bitter aftertaste among investors, and weakened confidence in joint-stock companies, as did similar failures in other parts of Austria.

Fifty percent of the initial capital stock of the LKB was taken up by Živnostenska Banka of Prague, reflecting the interregional expansion of Czech banking, a process which started with the opening of Živnostenska's Vienna branch in 1898.²⁷ For Ljubljana, too, the initial plan called for a branch bank; but due to the initiative of Ivan Hribar, the mayor of Ljubljana and the first president of the LKB, Živnostenska opted for financial participation in the LKB by its own Vienna branch, instead of opening its own branch in Ljubljana.²⁸ This decision, incidentally, coincided with a general glut of liquidity during the economic lull of 1900, which sent capital to the provinces in search of higher yields than those offered in the Vienna money market. In addition to this initial Czech capital transfer, cooperation with the Czechs proved beneficial because it resulted in a transfer of know-how as well: several former officers of Živnostenska provided a succession of the LKB's managing directors, transmitting financial expertise to a generation of Slovene bankers.

Finally, eight percent of the initial stock offering of the LKB was subscribed by cooperatives. As in the case of individual subscribers, the investment by the cooperative sector lagged behind its financial strength. It was not until 1917 that a corporate bank was founded by cooperatives, namely, the Ilirska Banka of Ljubljana; in it the Ljudska

Posojilnica, an important lending cooperative, held 40 percent of the capital stock.²⁹ By this time lending cooperatives, operating under statutory restrictions, could no longer provide the entire range of financial services demanded by the evolving cooperative sector, hence the tendency to enter joint-stock banking.

The earlier cautiousness of Slovene investors was soon overcome in view of the successful performance of the LKB: between 1900 and 1912 the bank was able to place several successive stock issues at a premium, increasing its capital stock from the initial 0.5 million crowns to 8 million crowns.

From Ljubljana the Slovene banking initiative spread to Trieste with the founding there of the Jadranska Banka in 1905. This time individual investors subscribed to 60 percent of the initial stock offering. Banks were represented with 36 percent, namely the LKB with 16 and several Croatian banks with 20 percent. Lending cooperatives accounted for 4 percent, with the Tržaška Posojilnica holding one-half of this share. The geographic distribution of investors shows that 31 percent of the initial capital came from Trieste, 24 percent from the Slovene interior and 44 percent from Croatia proper and Dalmatia.³⁰ Jadranska grew rapidly so that by 1912 its capital stock reached 8 million crowns, equalling that of the LKB as well as that of the older Banca Commerciale Triestina.

THE SCOPE OF SLOVENE BANKING

The growth of the Austrian banking industry during the period between the economic upsurge of 1898 and the beginning of World War I in 1914 was accompanied by a concentration of capital in the hands of the large Vienna banks. In the provinces this process made itself felt (1) by the acquisition of non-corporate private banks and their transformation into branches, and (2) by the absorption of joint-stock provincial banks into so-called communities of interest' (*Interessengemeinschaften*), dominated by Vienna banks.

The budding Slovene banking ran counter to those tendencies by extending its services to an ethnic market that German-Austrian banks had failed to develop. In fact the Viennese banks may have perceived the potential significance of this market only after the LKB was off to a successful start, for it was after the appearance of the LKB on the banking scene that two Viennese banks established their branches in Ljubljana: the Creditanstalt, by buying out the local private bank of L.C. Luckmann in 1906; and the Verkehrsbank by acquiring that of Emerich Mayer in 1908.³¹ In Carinthia, too, Viennese capital moved in on the heels of the LKB, which was the first corporate bank to establish itself in Celovec/Klagenfurt in 1904. Soon afterwards the Creditanstalt transformed the private bank Suppan into its Klagenfurt branch.³²

In addition to Klagenfurt, the branch network of the LKB included Split, Trieste, Sarajevo, Gorica and Celje. The existence of LKB's branch in Trieste and that of the Jadranska Banka in Ljubljana shows that the two banks were not hesitant to compete for business in the others' respective home cities. Elsewhere, the branching out by the Jadranska Banka concentrated on Dalmatia, for which Trieste served as the main economic link with the rest of Austria. The expansion in Dalmatia was facilitated through the mergers of Hrvatska Vjeresijska Banka in Dubrovnik and of Hrvatska Bokeljska Štedionica in Kotor with the Jadranska Banka in 1911. Through these mergers the Trieste bank acquired branches in Dubrovnik, Split, Šibenik, Zadar and Kotor. Also in 1911, it opened a branch in Metković, the sea outlet for Bosnia and Hercegovina. Of longer standing was Jadranska Banka's branch in Opatija, conveniently located in the immediate vicinity of Hungary's sea outlet of Rijeka/Fiume.

Finally, in 1914, the Jadranska Banka opened its branch in Vienna, establishing a direct link with the financial capital of the Empire, as had been done earlier by Czech banks. Thus the integration of financial markets was not a unidirectional process, that is, one that was carried out exclusively through the branching out by Viennese banks. Rather, financial integration proceeded in the opposite direction as well, reflecting developments in the ethnically specific regional markets.

While they were differentiated along ethnic lines, the banks in Austria were not specialized by banking activity. By the turn of the century they evolved into universal banks, true maids of all work' (*Mädchen für alles*). Unlike the banks in France, which according to their specialization could be divided into commercial and investment banks of the *Crédit Mobilier* type, Austrian banks successfully combined short-term commercial lending with long-term industrial financing. Moreover, because of the relatively weak wholesale sector, they often engaged in commodity trading as well.

The charters of both the LKB and the Jadranska Banka provided for a full range of banking services. In addition to commercial lending, both banks soon began organizing new joint-stock companies and underwriting stock issues, although their own holdings of such securities never attained significant proportions. Corporate ventures in which Slovene banks participated were medium-size enterprises in the food industry (breweries in Senožeče and Laško, a sugar refinery in Osijek), in metalworking (the manufacturing of shotguns in Borovlje/Ferlach), and a brick kiln in Ilirska Bistrica. Corporations in the service and transportation sector included the forwarding and brokerage firm Balkan and the steamship companies Dalmatia and Oceania, all in Trieste.³³

Although these firms failed to match in size large externally controlled enterprises in mining and paper manufacturing, the fact that their financing was arranged within the region signaled a departure from the established practice of channeling industrial investment through Vienna. The importance of this qualitative change became fully apparent after World War I, when Slovene banks took on the task of reorganizing foreign-owned industries into locally-incorporated enterprises.

Commercial credit was, of course, the mainstay of business for both banks. The fact that they operated in a largely uncharted territory, populated by a number of small- to medium-size new firms, explains the relative lack of sophistication in their financial techniques. Well-secured loans were preferred to unsecured *Biancokredit*, which was typical of Vienna banks lending to established large firms. For example, when in 1912 the Jadranska Banka extended a 50,000 crown loan to Fr. Primc, a Trieste wholesaler, the bill of exchange was co-signed by no fewer than five persons and the loan was secured with a second mortgage on one of Primc's properties. Concurrently the bank opened to this client a credit line of 250,000 crowns for advances on accounts receivable. The interest was set at 1.5 percentage points above the discount rate of the note-issuing Austro-Hungarian bank, with a minimum of 5.5 percent. In addition, the Jadranska Banka collected 0.25% commission on all of Primc's sales, as well as a separate commission amounting to 10% of his annual net profits. In a similar loan agreement, reached early in 1914, the interest premium was lowered by 1 percentage point and the commission on profits from 10% to 5%. On this occasion the credit was secured by all claims and inventories of the firm.³⁴

The commission the bank collected on Primc's sales goes to show that it participated in business ventures to an extent the examination of its balance sheet fails to indicate. Moreover, the Jadranska Banka engaged in commodity trading as well, since its Ljubljana branch operated a special department for trading in sugar.

SLOVENE BANKS IN COMPARATIVE PERSPECTIVE

A comparison of the assets structure of Slovene banks with that of the Vienna and Prague banks, as displayed in the table below, shows the evolution of bank credit from the initial stages of development, as exemplified by the young Slovene banks, to a higher stage attained by the Czech banks, and finally to the mature stage of the Vienna banks. In the case of the Slovene banks, advances on securities and goods represented 32% of their assets, as against corresponding values of 7% and 6% respectively for the Czech and Vienna banks. The order is reversed when it comes to the proportion of debtors on current account (*tekoči račun, Kontokorrent*), which represents the type of intermediation that allowed for substantial economies of scale, since in current account lending the evaluation of each separate loan is replaced by the overall evaluation of large established firms borrowing on a continuous basis. With 50% of assets in this category, the Czech banks were approaching the Viennese share of 65%, while the Slovenes with 33% remained a distant third.

Table 1

SELECTED ASSETS AND LIABILITIES OF VIENNESE, CZECH AND SLOVENE JOINT-STOCK BANKS, 1912 (in percent)

	Major Vienna banks ^a	Banks in Bohemia	Slovene Banks
ASSETS	100	100	100
Total short-term credit	90	80	86
Debtors on current account	65	50	33
Bills of exchange	19	23	21
Advances on securities and goods	6	7	32
LIABILITIES	100	100	100
Savings accounts	10	19	23
Transferable deposits ^b	57	43	23

^aSix major banks: Anglo-Österreichische Bank, Creditanstalt, Österreichische Länderbank, Union-Bank, Niederösterreichische Escomptegesellschaft, and Wiener-Bank-Verein.

^bThis entry consists primarily (and in the case of Slovene banks exclusively) of transferable deposits, namely *takoči računi/Kontokorrent* and *žiro računi/Giro*.

Sources: Richard L. Rudolph, *Banking and Industrialization in Austria-Hungary: the Role of Banks in the Industrialization of the Czech Crownlands, 1873-1914* (Cambridge: Cambridge University Press, 1976): 81-85; annual reports of the LKB and the Jadranska Banka.

An inspection of financial sources, that is liabilities, reveals similar differences in the developmental stage. The Viennese banks relied more heavily on transferable deposits of the *Kontokorrent* or *Giro* account type (57%) than did either the Czech (43%) or the Slovene banks (23%). In contrast, time deposits represented only 10% for the Viennese, but 19% for the Czech and 23% for the Slovene banks. Because of the prescribed ratio of primary capital to time deposits, the higher share of savings deposits in the case of the Slovene banks implied a higher ratio of equity to borrowed funds and, consequently, a lower financial leverage.

After twelve years of its existence, in 1912, Slovene banking represented 3.5% of capital stock of all Austrian joint-stock banks outside Vienna.³⁵ Although this share was less than proportional to the 4.5% share of Slovenes in the Austrian population,³⁶ the lag in the development of corporate banking was more than offset by the relative importance of Slovene lending cooperatives and public savings banks. Their combined assets of over 400 million crowns, representing over 5% of assets of such institutions in Austria, by far outweighed the corresponding value of 63 million crowns for corporate banks.³⁷ In terms of total assets, this subordinate role of corporate banks in the Slovene financial system is attributable to their newness on the financial scene and at the same time indicative of their growth potential. The actual continuation of growth was thwarted by the recession which set in with the outbreak of the First Balkan war in 1912. There followed a severe reduction in the real value of bank assets during World War I. Nevertheless, Slovene corporate banks represented the foundation upon which a comprehensive system of financial intermediaries could be built during the 1920s.

Although the services of corporate banks to some extent paralleled those of lending cooperatives and savings banks, their current account business and investment financing added a new dimension to Slovene financial intermediation, providing important external economies to firms in the region. As in the case of lending cooperatives and savings banks, the linguistic specialization seems to have been a significant element in the success of Slovene joint-stock banks. After all, they served a Slovene-speaking clientele which had been largely bypassed by German-Austrian financial intermediation. In time, even German-Austrian intermediaries such as the *Krainische Sparkasse* accepted a modicum of Slovene in their dealings with the public, after having experienced massive transfers of deposits to Slovene financial institutions.

Linguistic specialization, however, should not be equated with financial isolation. The multilingual staff of Slovene banks showed a great deal of linguistic accommodation when transacting business with non-Slovene parties, thus facilitating the flow of funds across ethnic boundaries. The shares of the LKB and of the *Jadranska Banka* were traded on the Vienna stock exchange, and both banks participated in various inter-bank consortia for underwriting securities. One could argue that linguistic specialization not only failed to impede interregional capital flows, but that it actually represented a necessary condition for establishing a regional network of institutional financial intermediaries—first lending cooperatives, and later corporate banks—without which financial integration would have been impossible to achieve.

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*This is the revised version of a paper presented in the panel "Banking and Economic Development in East Central Europe," sponsored by the Society for Slovene Studies, at the XVI National Convention of the American Association for the Advancement of Slavic Studies, New York, November, 1984. I am indebted to discussants Barbara Černič and David F. Good for their comments, and to the latter for suggestions made in a subsequent letter. I retain all responsibility for any errors. Support by the American-Yugoslav Commission for Educational Exchanges and by the Ekonomska Fakulteta of the University of Ljubljana is gratefully acknowledged.

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7. Toussaint Hočevar, "Začetki slovenskega poslovnega bančništva, 1900 - 1912," *Bančni vestnik* 32.12 (1983): 335-343; "Slovensko poslovno bančništvo, 1913 - 1941," *ibid.* 33.7-8 (1984): 230-234, 33.9 (1984): 267-272.
8. Toussaint Hočevar, "Slovensko poslovno bančništvo kot inovacijski dejavnik, 1900 - 1930," *Zgodovinski časopis* 38.3 (1984): 172-192.
9. Toussaint Hočevar, "Les aspects économiques de la dynamique fonctionnelle des langues," (Symposium: L'économie politique de la planification des langues), *Language Problems and Language Planning* 7.2 (1983): 135-147.
10. There were, of course, deviations from this general rule, with oral communications in Slovene extending farther towards the upper end of the functional range than written communications and records. Moreover, recent research has shown that during the latter part of the 17th century two women belonging to the established nobility used Slovene in their correspondence and in business correspondence with a third party; cf. Pavle Merkû, ed., *Slovenska plemiška pisma* (Trieste: Založba tržaškega tiska, 1980). For a review, see *Slovene Studies* 3.1 (1981): 32-35.
11. Toussaint Hočevar, *The Structure of the Slovenian Economy, 1848 - 1963* (New York: Studia Slovenica, 1965), especially 105-108.
12. David F. Good, "National bias in the Austrian capital market before World War I," *Explorations in Economic History* 14 (1977): 141-166; "Discrimination in the Austrian capital market?: A Reply," *ibid.* 17 (1980): 428-433.
13. J.W. Christian and E. Pagoulatous, "Domestic financial markets in developing economies: an econometric analysis," *Kyklos* 26.1 (1973).
14. In the Slovene-inhabited province of Carniola, the proportion of the agrarian population dropped from 70% to 62% between 1900 and 1910, as compared to a decline of only 3 percentage points during the preceding decade (*Berufsstatistik nach den Ergebnissen der Volkszählung von 31. Dezember 1910 in Österreich*, = V ol. III of *Volkszählungsergebnisse*, Pt. I: *Hauptübersicht und Besprechung der Ergebnisse* (Vienna: K.k. Hof- und Staatsdruckerei, 1916) 16.
15. Janko Orožen, *Denarništvo v Celju* (Celje: Ljubljanska banka, podružnica Celje, 1973) 33-34.
16. *Österreichische Statistik* 80.1 (1908).

17. Cf. V.V. Bhatt, "Interest rate, transaction costs and financial innovation." *Capital Market Imperfections and Economic Development* [= World Bank Staff Working Papers 338] (1979): 1-47.
18. *Kmetijsko zadruženstvo na Slovenskem* (Ljubljana: Zadružna zveza, 1983) 7.
19. Dolfe Schauer, *Prva doba našega zadruženstva, od nastanka do leta 1895* (Ljubljana, 1945) 105.
20. Cf. Franklin Lopez, "Financial intermediation and economic development: a conceptual framework," *Journal of Economic Development* 7.2 (1982).
21. *Österreichische Statistik* 80.1 (1908), Table III.
22. Cf. Michel 55.
23. Michel 72-74.
24. As quoted by Anton Kralj in "Zgodovina slovenskega zadruženstva." Josip Mal, ed., *Slovinci v desetletju 1918 - 1928: Zbornik razprav iz kulturne, gospodarske in politične zgodovine* (Ljubljana: Leonova družba, 1928) 541.
25. Finanzarchiv (Vienna), I. Reg. Abt., ZL 58100, II Fasz. 36 - 1900.
26. Cf. John A. Arnez, *Slovenian Lands and Their Economies, 1843 - 1873* (New York: Studia Slovenica, 1983) 126-137.
27. Michel 53.
28. Cf. Ivan Hribar, *Moji spomini, I. del.* (Ljubljana: Slovenska matica, 1983) 311-314.
29. Finanzarchiv (Vienna), ZL 55.043/16.
30. Finanzarchiv (Vienna), ZL 90810, II Fasz. 36 - 1905.
31. Michel 108.
32. Michel 108.
33. Based on information in selected annual reports of the LKB and the Jadranska Banka.
34. The Primc file in the Jadranska Banka archive of the Narodna in študijska knjižnica v Trstu (Trieste).
35. *Österreichische Statistik, Neue Folge* 15.2 (1916).
36. *Österreichische Statistik, Neue Folge* 15.1 (1916).
37. Kralj 546, fn. 24, gives data for Slovene lending cooperatives for 1910. Data for Slovene savings banks for 1913 are from *Trgovski list*, Feb. 16, 1926. Data for Austrian savings banks for 1908 are from Michel 31. Assets of Slovene banks are based on 1912 annual reports of the LKB and the Jadranska Banka.

POVZETEK

Podobno kot razvoj češkega je tudi nagel razvoj slovenskega poslovnega bančništva na prelomu stoletja potekal v nasprotju s koncentracijo avstrijskega bančnega kapitala v rokah dunajskih velebank. K temu je prispevala komunikacijska intenzivnost storitvenih in še posebej finančnih dejavnosti. V primerjavi z nemškimi so imele namreč slovenske banke to prednost, da jih od komitentov ni ločevala jezikovna pregraja. Tako je spričo povpraševanja slovenskih trgovskih in storitvah Ljubljanski kreditni banke (ustanovljena leta 1900) in Jadranski banki v Trstu (1905) uspelo v obdobju pred prvo svetovno vojno naglo povečati bilančni vsoti in razširiti podružniški mreži. Z uvajanjem finančnih storitev, ki so bile zunaj torišča sicer razširjenih zadružnih posojilnic in regulativnih hranilnic, sta omenjeni banki povečali funkcijsko razsežnost finančnega sektorja na Slovenskem. Struktura njunih bilančnih postavk kaže na začetno razvojno stopnjo bilančnega posredništva, saj je bil delež tekočih računov pri slovenskih bankah znatno nižju kot pa pri dunajskih in tudi čeških.