

EUI Working Papers

MWP 2011/35
MAX WEBER PROGRAMME

FEARS AND HOPE IN NUMBERS: FINANCIAL DATA AND THE
WRITING OF HISTORY

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Financial Data and the Writing of History*

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ISSN 1830-7728

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Printed in Italy
European University Institute
Badia Fiesolana
I – 50014 San Domenico di Fiesole (FI)
Italy
www.eui.eu
cadmus.eui.eu

Abstract

This paper puts forward the methodological view that certain data produced by financial markets can be used without the need to look into how they were compiled. It argues that when trying to understand the causes of the Austrian Boden-Kredit Anstalt's collapse of September 1929, data from bank balance sheets are not a reliable source, whereas data such as bond yields and interest rate differentials help locate the origin of the financial crisis in the resignation of Austria's Chancellor Ignaz Seipel in April 1929.

Keywords

Financial History, Banking History, Interwar Austria, 1929, Boden-Kredit Anstalt

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"Living by numbers, Adding to history" sang the rock band New Musik during the 1980s, lamenting the fact that our lives are increasingly governed by numbers. Interestingly, it was around the same time that numbers began to pose a challenging problem to historians. Post-modernists, opposed to any form of Rankean positivism, argued that all primary sources were suspect of harbouring subjective views, which was difficult to overcome. Even if carefully scrutinized and weighed against each other, they claimed, historical sources could not tell us how things had actually been. This was particularly true for quantitative material, which, as historians became increasingly aware, had often been compiled and manipulated to serve the interests of political, economic or social groups and therefore could not be taken at face value. For example, census data collected by the British in 19th century India hold more information about how the colonizers imagined and created the caste system than about the actual demographics of India.¹ Data on infant mortality in Imperial Vienna tell us more about which social groups had access to urban healthcare than about the health of Austrian newborn infants.² Historians who used historical figures uncritically, they argued, were bound to end up reifying the prejudices and manipulations of earlier statisticians.

Adam Tooze has most recently argued that despite these problems, historians cannot simply ignore the quantitative material produced throughout history.³ Tooze calls upon historians to learn how data were produced, an approach he terms hermeneutical quantification, in order to discern the bias they contain and escape their preconceived notions.⁴ While historical statistics always reflect a political agenda that makes them, at best, a biased echo of our past, this paper argues that financial data, which is produced solely by the market, can be used without raising post-modernists' concerns. In fact, financial data, from exchange rates to stock and bond prices, enjoy an unusual halo of objectivity, because they are reported independently and are difficult to manipulate. Moreover, as this paper aims to show, financial data allow historians to make positivist statements about one of the most elusive but essential topics of historical analysis: peoples' emotions, fears and hopes.

Since they are produced by the market, financial data can be relied upon to hold trustworthy and meaningful information about the past, which allows historians to draw positivist conclusions. In this paper I shall demonstrate this methodological claim by choosing to study an important bank failure of inter-war Austria as an example. The collapse of the Viennese Boden-Kredit Anstalt (BKA) in 1929, one of the country's oldest and largest banks, marked a pivotal moment in the history of the First Austrian Republic and has widely been regarded as the precursor of the better known Credit-Anstalt crisis two years later.⁵ Despite a broad historiographic consensus that financial mismanagement and political turmoil combined to bring about the BKA's demise, no actual proof has been provided to substantiate these claims and there remains much confusion about which events forced the bank to fold.

The story of the BKA collapse begins two years before, in the early hours of Friday 15 July 1927, when a large group of Viennese socialists decided to walk off their job and march into the inner city of

¹ Bernard S. Cohn, *Colonialism and its forms of knowledge: The British in India* (Princeton 1996).

² Peter W. Ward, "Birth Weight and Standards of Living in Vienna, 1865-1930" in *Journal of Interdisciplinary History*, vol. 19, no. 2 (Autumn 1988), pp. 203-29.

³ Adam Tooze, "Problems with Numbers: Statistics, Politics, and History in the Construction of Weimar's Trade Balance, 1918-1924" in *The American Historical Review*, vol. 113, no. 3 (June 2008), pp. 678-700.

⁴ Tooze concludes with a positivist argument himself, stating that stabilization in Germany was possible in 1922. Conscious about how trade data in Germany were manufactured, Tooze disappointingly uses similar non-German data to make his point, displaying precisely the same naïve positivism he set out to disparage.

⁵ Hans Kernbauer, *Währungspolitik in der Zwischenkriegszeit*, (Vienna 1991) p.256.

the Austrian capital. The previous day, a jury had acquitted three men who were charged with murdering two socialists. The court's deliberations and eventual ruling, covered in polemical articles in all the newspapers, enraged the Viennese workers.⁶ The staff at the city's electricity works were the first to strike and soon they were joined by the personnel of Vienna's electric tramways. Socialist party leaders were taken by surprise by the spontaneous strike and so were the municipal police. When a first group of demonstrators broke through a cordon of uniformed guards surrounding the Austrian Parliament on the *Ringstrasse*, they were brutally charged by mounted police with drawn sabres. Gathering cobble stones, the workers reassembled and fought back, pulling officers from their horses and beating them severely. Increasingly threatened and vastly out-numbered, the police then opened fire and retreated into the nearby *Justizpalast*.

The workers soon surrounded the building. Clerks and judges retreated into the edifice, while demonstrators threw documents into the street and set them on fire. Soon parts of the building itself were in flames. Policemen and judges were secretly escorted to safety, but outside the cheering crowd prevented the arriving fire engines from reaching the hydrants. More and more people assembled to witness the spectacle, and pleadings by socialist politicians to clear the way for the fire engines went unheeded. Once more, the police opened fire, this time using heavy machine-guns. The crowd dispersed in panic. Strengthened by reinforcements, the police decided to chase after them and continued to hunt down demonstrators until nightfall. At the end of the day, the carnage cost the lives of 85 civilians and 4 policemen, with scores of wounded being treated in municipal hospitals.⁷

Politically, the fatal events of 15 July 1927 led to a strengthening of the paramilitary *Heimwehr*, a reactionary force bent on overthrowing parliamentary democracy in Austria and replacing it with a fascist dictatorship. Financially, however, the tragic events had no consequences. Despite the bankruptcy of one of Vienna's oldest merchant houses in early June, with an exposure of \$1 million in London alone, the violent events did not provoke a flight of foreign capital. In fact, the Austrian Minister in London soon discovered that the City of London admired the way the unrest had been put down and that most financiers had few qualms about Austria's future.⁸

Two years later, in 1929, the *Heimwehr* announced that its members would march on the Austrian capital in September to demand constitutional reforms. In 1928, a *Heimwehr* march through Wiener Neustadt, a town located in the industrial basin of Lower Austria, had sparked fears of an impending civil war, but heavily armed military cordons had separated the *Heimwehr* from the socialist counter-demonstration and managed to keep the peace at the time. In August 1929, however, a heavy exchange of fire between *Heimwehr* activists and members of the socialist *Schutzbund* in the small town of St. Lorentzen left at least three dead and scores of wounded. Threats from *Heimwehr* leaders to risk a *coup d'état* if their demands were not met before 29 September 1929, the date set for their "March on Vienna", provoked renewed fears of civil unrest in the capital. While the march eventually passed peacefully, news of difficulties at the acclaimed Boden-Kredit-Anstalt (BKA) were made public one week later, when it was forced to merged with its larger and only rival, the Credit-Anstalt.

The BKA had long been banker to the Hapsburgs and Austro-Hungary's nobility before the war and its collapse more than anything else symbolized the waning of the country's once glorious past.⁹

⁶ Public Record Office [hereafter PRO] FO 371 / 12079: Letter from Leeper to Chamberlain, 16 Jul. 1927 as quoted by Carsten, p. 121.

⁷ Charles Gullick, *From Habsburg to Hitler* (Berkeley 1948), pp. 717-51. F.L. Carsten, *The First Austrian Republic 1918-1938* (Aldershot 1986), pp. 121-8. Archiv der Republik [hereafter AdR] 01/9, 7 Ges. London Polit. Berichte 1926 -1927: Telegrams from Bratislava to Franckenstein, 16 and 17 Jul. 1927 and from Prague to Franckenstein 17 Jul. 1927.

⁸ AdR 01/9, 7 Ges. London Polit. Berichte 1926 -1927: Letter from Franckenstein to Seipel, 18 Jul. 1927. AdR, 7 Ges. London Polit. Berichte 1926 -1927, "Finanzpolitisch 1927. Investitionsanleihe": Letter from Franckenstein, 29 Jul. 1927. AdR 01/9 Ges. London, Karton 19: Telegram 1924 1938, "VIII 1927 Hinaus": Telegram from Franckenstein to Seipel, 18 Jul. 1927. AdR 01/4, 42 Voelkerrecht, "Berichte aus London 1927 IV-XII": Letter from Franckenstein to Seipel, 26 Jul. 1927. Bank of England [hereafter BoE] OV 28/1, "Austria": Letter from Kay to Norman, 11 and 22 Jun. 1927 and from Norman to Kay, 13 Jun. 1927.

⁹ Charlotte Natmessnig, "Wege zur Währungssanierung und Beginn der Bankenkonzentration auf dem Wiener Platz" in Oliver Rathkolb, Theodor Venus and Ulrike Zimmerl (eds.) *Bank Austria Credit-Anstalt, 150 Jahre österreichische*

The bank was burdened by a large portfolio of ill-performing industrial shares, much of it inherited from smaller banks it had swallowed or obtained during the period of post-war inflation. Many of BKA's loans to its industrial enterprises were not performing, but the bank and its large industrial conglomerates had continued to pay high dividends by tapping their reserves.¹⁰ Nevertheless, according to a senior director at the Austrian National Bank (ANB), the actual reason for the BKA's collapse at the end of September 1929 was a national feeling of insecurity and discontent that gave way to violent unrest and a run on the Viennese banks. The BKA was ill prepared to face the massive and sudden withdrawal of funds because it had already surpassed its discounting limit of Sh. 65 million at the end of 1928. In order to satisfy the withdrawals of its creditors from 15 to 30 September 1929, the BKA further increased its discounts with the central bank from Sh.85 to Sh.121 million, so that the ANB refused further funds and demanded an immediate merger with the Credit-Anstalt to prevent bankruptcy.¹¹

The ANB's exonerating account that a run by depositors brought down the BKA has been repeated by many a historian.¹² Hans Kernbauer, in his authorized history of the ANB quotes the bank's own annual report, which defended the central bank against criticism that its credit policy had allowed for the BKA's fatally expansive strategy. The report accused the BKA of ignoring its calls to reduce discounts and cut its activities back, and instead of continuing to pay-out high dividends and keeping its industrial conglomerates afloat. When political turmoil led to a withdrawal of deposits and foreign credits, the report concluded, most of the BKA's assets were frozen and the bank had to be merged.¹³ In his monetary history of the Austrian National Bank, Wolfgang Zisper writes that the BKA faced liquidity problems as early as spring 1929 and that September's political crisis coupled with rumours about the BKA's difficulties led to widespread withdrawals by depositors, capital flight and the cancellation of foreign loans. The ANB, in an attempt to prevent any further decrease in its own foreign reserves, thereupon forced the merger of the BKA with the Credit-Anstalt.¹⁴ Rudolf Nötel,

(Contd.) _____

Bankengeschichte im Zentrum Europas (Vienna, 2005), pp. 162-79. See also Kernbauer, *Währungspolitik in der Zwischenkriegszeit*, pp. 276-9.

¹⁰ Fritz Weber, "Grosse Hoffnungen und k(l)eine Erfolge. Zur Vorgeschichte der österreichischen Finanzkrise von 1931" in Oliver Rathkolb, Theodor Venus and Ulrike Zimmerl (eds.) *Bank Austria Credit-Anstalt, 150 Jahre österreichische Bankengeschichte im Zentrum Europas* (Vienna 2005), pp. 180-95. See also Fritz Weber, *Vor dem grossen Krach – Die Krise des österreichischen Bankwesens in den zwanziger Jahren*, Habil. Salzburg University (1991).

¹¹ BoE OV28/34, "Oesterreichische Nationalbank.": Letter from Brauneis to Siepman, 12 Oct. 1929. Austrian National Bank [hereafter ANB] 1256 / 1929, "Diverse unnummerierte Beilagen zum Akt Nr. 1256 /1929": Letters from ANB to Credit-Anstalt, 9 Oct. 1929, from ANB to Ministerialrat Rizzi, 16 Oct. 1929 and from ANB to Credit-Anstalt, 8 Oct. 1929. ANB 1256 / 1929, "Giroausweise betr. das Eskont-, Lombard- und Devisengeschäft" 16 /1930: *Stand des Sonderkredites (verschiedene Anlagen) am 31. Jänner 1930*. PRO FO 371 / 13567: Letter from Phipps to Henderson, 17 Oct. 1929. PRO FO 371 / 13567: Letters from Phipps to Henderson, 17 Oct. 1929 and 24 Oct. 1929 and from Le Rougetel to Henderson, 8 Oct. 1929. Kernbauer, *Währungspolitik in der Zwischenkriegszeit*, p. 276.

¹² Of course, many recent works still fail to provide an exact reason for the BKA's collapse. For example Charlotte Natmessnig, "Wege zur Währungssanierung und Beginn der Bankenkonzentration auf dem Wiener Platz" in Oliver Rathkolb, Theodor Venus and Ulrike Zimmerl (eds.), *Bank Austria Credit-Anstalt, 150 Jahre österreichische Bankengeschichte im Zentrum Europas* (Vienna, 2005) pp. 162-79, p. 178. In the same volume see also Herbert Matis, "Österreichs Wirtschaft in der Zwischenkriegszeit: Desintegration, Neustrukturierung und Stagnation" pp. 124- 47, p. 137 and Fritz Weber, "Grosse Hoffnungen und k(l)eine Erfolge. Zur Vorgeschichte der österreichischen Finanzkrise von 1931" pp. 180-95, p. 180-1. See also Fritz Weber, "Die wirtschaftliche Entwicklung" in Herbert Dachs, P. Gerlich et. al (eds.) *Handbuch des politischen Systems Österreichs* (Vienna 1991) pp. 23-42 and similarly Hans Kernbauer, Eduard März and Fritz Weber, "Die wirtschaftliche Entwicklung" in Kurt Skalnik and Erika Weinzierl (eds.), *Österreich 1918-1938: Geschichte der Ersten Republik* (Graz 1983) pp. 343-379, p. 366.

¹³ Kernbauer, *Währungspolitik in der Zwischenkriegszeit*, pp. 276-82. Kernbauer repeated his account again in "Österreichische Währungs-, Bank- und Budgetpolitik in der Zwischenkriegszeit" in Emerich Tálos, Herbert Dachs, Ernst Hanisch and Anton Staudinger (eds.), *Handbuch des politischen Systems Österreichs. Erste Republik 1918-1933* (Vienna 1995) pp. 553-568, p.563.

¹⁴ Wolfgang Zisper, *Auf der Suche nach Stabilität: Das Zentralbankgeldangebot der österreichischen Nationalbank 1923 bis 1937* (Frankfurt a. M. 1997) p. 122.

who ascribes the collapse of the BKA to a variety of reasons, also mentions that its close ties with the government made it a likely victim of depositors' distrust during times of political unrest.¹⁵

Charles Gullick and Karl Ausch go so far as to state that the bank's collapse was not a financial, but a "political event of the first importance", directly related to the belligerent and vocal behaviour of the Austro-fascist *Heimwehr*.¹⁶ Their view resonates well with the ANB's official version, according to which fear of a *Heimwehr* march on Vienna provoked a flight of capital that forced the ailing BKA onto its knees. According to Karl Ausch, *Heimwehr* agitations provoked the cancellation of foreign credits and the withdrawal of deposits by Austrians savers, but the BKA was hit worst because of its known connections to the *Heimwehr* and its political affiliation with the conservative Christian-Social party. Similarly, Charles Gullick also stresses the role of the *Heimwehr* agitation in the bank's collapse, writing that the run on banks from late September to early October included both foreign and domestic withdrawals.¹⁷

The most knowledgeable and detailed analysis of the BKA's collapse comes most certainly from Fritz Weber's unpublished account of the history of Austrian inter-war banking. Weber argues that capital flight in September affected all Viennese banks and that the cancellation of foreign credits and the withdrawal of deposits were the result of a political panic, which turned particularly towards the BKA because the ailing bank was considered closely connected to the fascist *Heimwehr*.¹⁸ Hence it seems that the historiographic consensus centres around the ANB's official report. The BKA had been mismanaged and had borrowed heavily from the central bank. When political turmoil in September led to a panic and heavy withdrawals, the bank had to be merged to prevent bankruptcy.

Historians cite little proof for this account of events apart from the ANB's official report, but it is somewhat substantiated by an analysis of the central bank's official balance sheets. According to these published figures, the ANB lost no significant amounts of foreign currency during the first three quarters of 1929 (*Graph 4*).

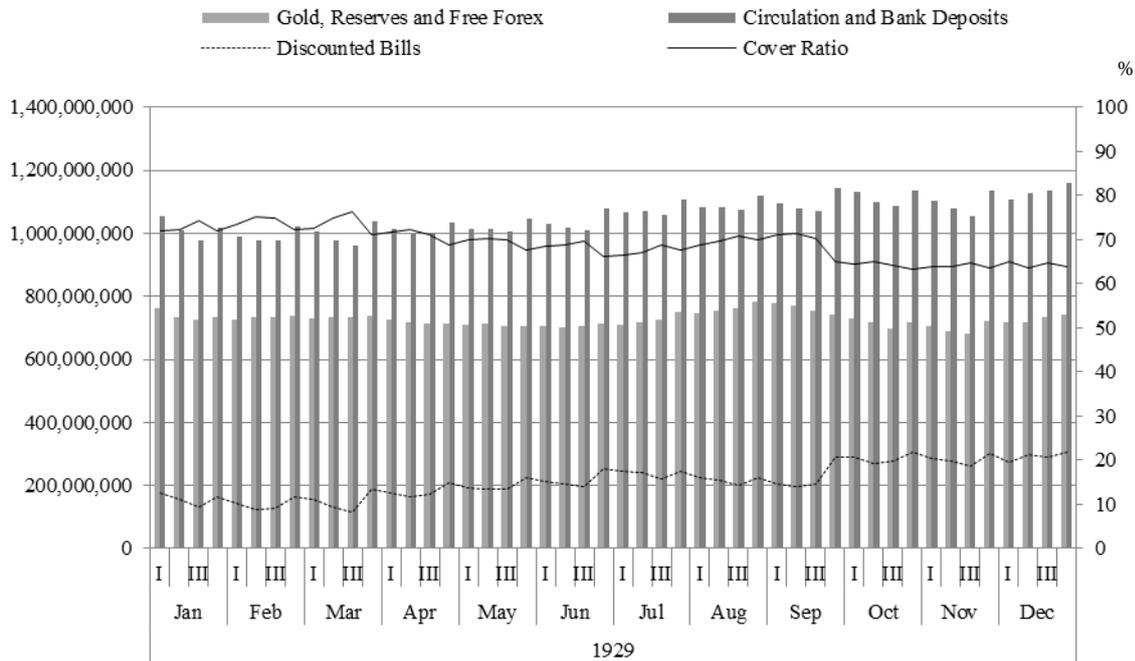
¹⁵ Rudolf Nötel, "Money, Banking and Industry in Interwar Austria and Hungary" in *Journal of European Economic History* vol. 13 no. 2 (1984) pp. 137 -202, p. 160.

¹⁶ Gullick, *From Habsburg to Hitler*, pp. 856-61 and Karl Ausch, *Als die Banken Fielen*, (Vienna 1968) p. 307-34.

¹⁷ Gullick, *From Habsburg to Hitler*, pp. 856-9.

¹⁸ Fritz Weber, *Vor dem grossen Krach*, pp. 464-86. Weber repeats this account in Fritz Weber, "Grosse Hoffnungen und kleine Erfolge. Zur Vorgeschichte der österreichischen Finanzkrise von 1931."

Graph 1: Reported figures of the Austrian National Bank, Jan. to Dec. 1929, in Austrian schillings.



Source: Neue Freie Presse

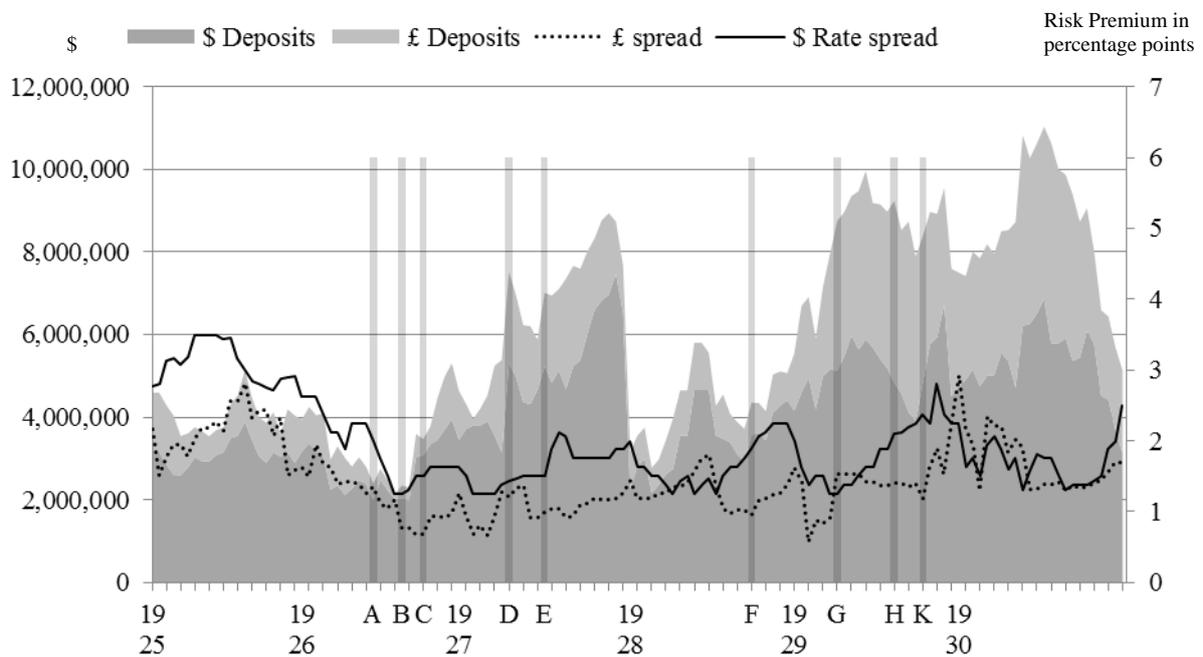
From mid-September to the end of October, though, the ANB was forced to report a drop of Sh.83.5 million or \$11.7 million in foreign reserves. At the same time the disclosed amount of discounts by banks increased dramatically, leaving the bank no choice but to let its cover ratio fall from 71 to 63 percent. These data seem to substantiate the claim of sudden capital flight occurring in Austria during the weeks leading up to the *Heimwehr* march on Vienna on 29 September 1929.

It would be a mistake to draw such corroborating conclusions from these figures, however. Tooze's call for quantitative hermeneutics is nowhere better placed than when historians draw on the public balance sheets of central banks, which are always manipulated to influence public opinion. Central banks shift gains and losses from one month to the next and enjoy broad freedom as to how they categorize their assets, and are free to choose whether to report foreign currency among the official reserve or just as *other assets*. Unfortunately, the archival sources at the ANB do not allow us to undertake the kind of quantitative hermeneutics proposed by Tooze. There is simply not enough material for us to understand how the data were collected and reproduced to escape their bias.

In order to understand what really happened to the BKA, and in particular whether political turmoil actually provoked a public panic that effectively led to the bank's demise, we must turn to financial data which allow us to analyze the reactions of foreigners and Austrians as the tumultuous events shook Austria in 1929. Two sets of financial data are at our disposal for this matter. The first is data on foreign deposits held by Vienna's third largest bank, the Wiener Bankverein (WBV), which can be used to gauge foreign investor confidence. By calculating the interest rate spread for deposits in Vienna and in the financial centres of London and New York, we obtain an assessment of foreign bankers' view of risk pertaining to Austria in 1929. The second set of data comes from the yield differential of two Austrian debentures, the League of Nations 1923 Reconstruction loan and the Austrian Gold loan, which holds information on how Austrians perceived the risk of a financial crisis and a government default in 1929. Together, the data reveal that there was nothing really sudden about the panic in September 1929. Foreign bankers grew more and more anxious about Austrian risk from early 1929 onwards and Austrians, too, became increasingly worried about their country's stability once Chancellor Seipel resigned in April 1929.

The minutes of the directors' meetings at the Vienna Bankverein, one of Austria's large banks, are kept today at the Credit-Anstalt archive in Vienna and contain bi-monthly lists of foreign deposits. Foreign short-term lending was an important source of capital for Austrian banks during the interwar period and usually came in the form of three-month renewable deposits, mainly denominated in U.S. dollars or pounds sterling, and originating from a plethora of foreign banks located mostly in the United States, the United Kingdom, the Netherlands, Switzerland or France. The data give information on the amount of each deposit, its origin and period, as well as the interest to be paid by the Wiener Bankverein to its lenders. This data has been reproduced in *Graph 2*, which shows the total amount of deposits in U.S. dollars (dark area) and pounds sterling (light area) from 1925 to 1931.

Graph 2: Foreign dollar and sterling deposits with Wiener Bankverein (both in U.S. dollars), from Feb. 1925 to Nov. 1931 and the rate differential (risk premium) between their median interest rate and the relevant rate in London or New York.



Legend: A: Termination of Control, 30 June 1926 and Zentralbank-Affair. B: Publication of the Zentralbank inquiry and problems at PSK, 15 Sep. 1926. C: Seipel return to Chancellery 30 Oct. 1926. D: General Elections 24 Apr. 1927. E: Vienna riots 15 Jul. 1927. F: Wiener-Neustadt Manifestations 7 Oct. 1928. G: Seipel Resignation 7 Apr. 1929. H: Deadly Clash in Styria, 18 Aug. 1929. K: BKA crisis 8-15 Oct. 1929.

Sources: CA, Wiener Bankverein Protokollbücher, 1925-1931. Bankers and Acceptance rates from Board of Governors of the Federal Reserve System, Annual Statistical Digest: Banking and Monetary Statistics 1941-1970, "Banking and Monetary Statistics 1914-1941" (1970), pp. 444-5 and 656-7.

A careful analysis of these figures reveals information on how Austrian risk was perceived by foreign financiers. Following the official end of reconstruction in 1926 (*Graph 2*: Column A) the WBV expanded its business in foreign deposits, which grew quickly until the end of 1927. There was a sharp and unexplained drop in foreign deposits at the beginning of 1928, but they recovered during the year and, following the peaceful end to the Wiener Neustadt demonstration in October (*Graph 2*: Column F), foreign borrowing, both in dollars and pounds, increased rapidly. Finally, after the resignation of Chancellor Seipel in April 1929 (*Graph 2*: Column G), the amount of foreign deposits with the WBV declined continuously. An analysis of this very data by P.L. Cottrell and C.J. Stone has

significantly revealed no correlation between the amount of the deposits and the interest rate demanded by lenders, showing that the growth and fall in deposits was not due to changes in interest differentials.¹⁹

The amount of interest paid for deposits is hence instructive. If compared to the rate demanded for similar deposits in London or New York we can deduce the compensation foreign bankers expected in return for taking the risk entailed in depositing their funds with the WBV in Austria. This spread in interest rates, or risk premium, has been calculated for both dollar and pound deposits and is shown in *Graph 2* as a continuous line for dollar deposits and a dotted line for those denominated in pounds sterling. The lines refer to the axis on the right and give us the difference in percentage points between the interest rate paid in New York or London for a three month deposit, and the mean interest rate paid by WBV for its dollar and pound deposits during the same period of time.²⁰ Since the risk premium compensates lenders for their perceived risk, the two graphs are good gauges of how foreign bankers perceived political and financial stability in Austria.

The Vienna riots of July 1927 can certainly be seen as heralding a sharp rise in the spread for dollar deposits, although an impact of the violent unrest on pound spreads cannot be discerned (*Graph 2*: Column E) and foreign confidence seems to have gradually improved thereafter. Two subsequent periods of heightened apprehension can easily be observed. First, there was a rise in the risk premium during the second half of 1928, as the conflict between Socialists and the Heimwehr gathered force and threatened to result in violence during the demonstration in Wiener Neustadt (*Graph 2*: Column F). The fact that the end of this ominous day saw no bloodshed was not sufficiently reassuring to foreign bankers, who continued to demand an increasingly higher risk premium for their deposits until the end of 1928, when spreads again began to fall.

An even more pronounced rise in the differential of dollar and pound rates, and thus of anxiety about Austria among foreign bankers, took place in 1929. From March onwards, as *Heimwehr* agitation became ever more vocal, the risk-premium on dollar deposits increased. The resignation of Chancellor Seipel in April that year seems to have had a mixed effect on foreign confidence (*Graph 2*: Column G). The premium on pound deposits stabilized thereafter, but dollar premiums continued to climb and the amount of both kinds of deposits began to decrease. The pound premium rose only after news of the BKA crisis broke, (*Graph 2*: Column K), but it had already been relatively high since Seipel's resignation. Throughout the summer, as *Heimwehr* members and Socialists held demonstrations and the Fascists announced their march on Vienna, foreign bankers viewed events in Austria with increasing concern and demanded to be compensated for the risk of depositing their money at the WBV with ever higher interest payments.

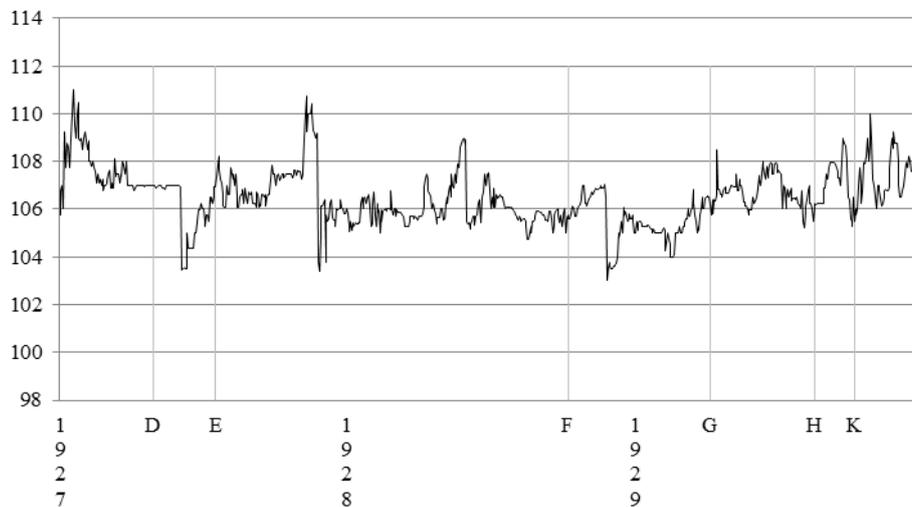
The historiographic consensus that political turmoil towards the end of the summer of 1929 led to the downfall of the BKA is not only questioned by the foreign bankers' assessment of Austrian risk, but also, and more importantly, by that of Austrian citizens. Their expectations regarding the likelihood of a governmental default or financial crisis can be deduced by calculating the yield spread between the League of Nations loan and the Austrian Gold loan. The prices of these bonds changed in accordance with the risk associated with holding onto them. Since the amount of interest that bonds pay is fixed, a change in their price means a change in the rate of return, i.e. its yield. If a bond is

¹⁹ P. L. Cottrell, with C. J. Stone: "Credits, and deposits to finance credits" in P. L. Cottrell, H. Lindgren and A. Teichova(eds.), *European Industry and Banking, 1920-1939: A Review of Bank Industry Relations* (Leicester, 1992) pp. 43-78.

²⁰ The two lines are instructive. First of all, they are positively correlated, thus suggesting that a similar perception of Austrian risk was shared between bankers dealing in dollars or pounds. Thus, through the last 18 months of League control, from January 1925 to June 1926, both lines dropped significantly. If rates in London and New York had risen at the time, it might have been possible to argue that there was no increase of bankers' confidence in Austria. The decline in spread would have simply resulted from the fact that rates abroad were going up, but remained unchanged in Vienna. However, rates in London and New York were in fact very stable and varied no more than 1 percentage point during that period, whereas the dollar differential dropped from a high of 3.43 in July 1925 to 1.25 percent in August 1926, while that for pound deposits fell from 2.82 in September 1925 to as low as 0.6895 in October the following year. In fact, there is almost no correlation between changes in the New York or London interest levels and changes in the rate differential calculated for WBV deposits, giving it additional interpretive strength as a gauge of foreign confidence.

deemed risky, its price will fall, thereby increasing the yield for the bondholder. A first look at the price of the League of Nations loan in *Graph 3.1*, in which the daily price of the bond is shown as a percentage of its nominal issue price, is already instructive.

Graph 3.1: Price of the Austrian League of Nations Loan Jan. 1927 to Dec. 1929



Legend: D: General Elections 24 Apr. 1927. E: Vienna riots 15 Jul. 1927. F: Wiener-Neustadt Demonstrations 7 Oct. 1928. G: Seipel Resignation 3. Apr. 1929. H: Fatal Clash in St Lorenzen, Styria, 18 Aug. 1929. K: BKA crisis 7 Oct. 1929.

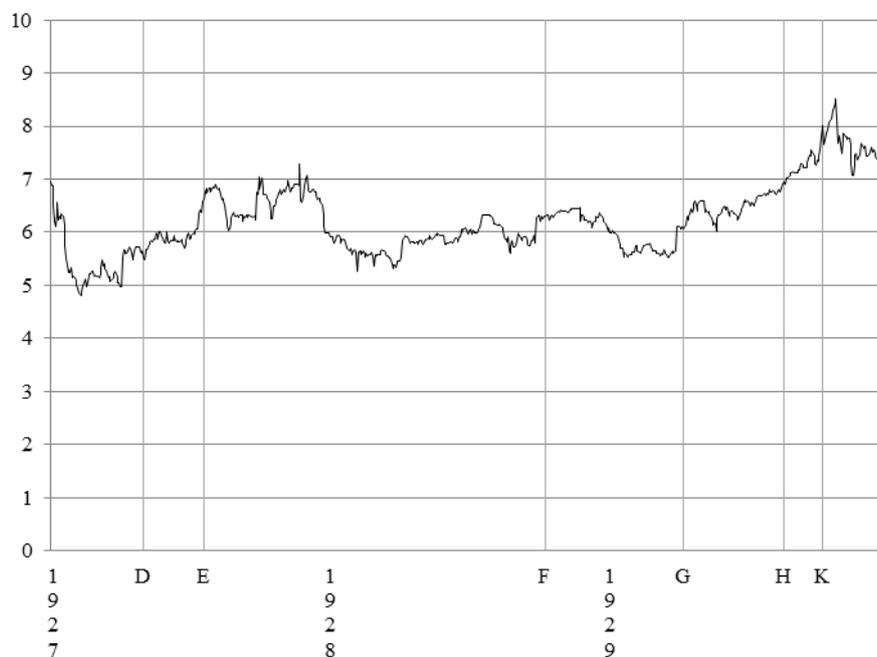
Sources: Daily quotations as given by the Neue Freie Presse.

As we see, the League loan was considered a very safe asset and consistently traded above its nominal value, because its annual payments were guaranteed by the governments that had helped issue the loan in 1923. A rise in the price of the League loan indicates a flight to safety, as investors accepted a lower yield in return for guaranteed payment in gold. A fall in the price of the bond indicates a rise in confidence (or an increased appetite for risk), as investors demanded a higher yield, despite the guarantees. It appears that the Vienna riots on 15 June 1927 did not lead to a spike in the bond price (*Graph 3.1*: Column E). Rather, the price declined, indicating that investors were satisfied with the brutal way Seipel and the Vienna police put down the unrest. The Wiener Neustadt demonstrations (*Graph 3.1*: Column F), which passed peacefully, might have provoked a greater demand for the League bond, but the data remain inconclusive, not least because of the sharp fall in the bond price thereafter. However, the data appear much more definite with regard to the events of 1929 (*Graph 3.1*: Columns H and K). The fatal clashes in St. Lorenzen, the Heimwehr march on Vienna and the BKA's merger were accompanied by a clearly visible rise in demand for the League loan. Following the violence in August, prices rose until the last week of September, and then dropped back again, only to shoot up immediately after news about the BKA's problems was made public in early October.

The prices of the League loan thus give some indication of how Austrians reacted to events, but do not provide an irrefutable picture. This is because the changes in price not only incorporate investors' shifting preferences of risk, but a myriad of other changes, such as the desire for long-term versus short-term assets, or assets paying in gold versus assets paying in domestic currency. To get a more conclusive picture we must compare the yields of the League bond with those of the Austrian Gold loan, a comparison that cancels out the other factors and leaves us with a good estimate of how

investors evaluated the risk of an Austrian default. Since the interest payment on both loans was fixed in gold, neither of them incurred an exchange rate risk. To investors therefore, the main difference in the bonds lay in the fact that foreign guarantors stood ready to pay interest on the League loan if Austria were to default, but that there were no such guarantees for the Gold loan. The yield spread between the two loans therefore functions well as an indicator of how Austrians assessed the risk of a government default. A large spread in yields indicates that investors demanded much compensation for choosing the Gold bond over the League bond. A small yield spread indicates that investors did not consider the risk of default excessive and were ready to accept the Gold bond at a lower yield, close to that earned by holding the safer League loan. The spread between the yields of the League and Gold loans is plotted in *Graph 3.2* and, as expected, it provides the tools for a convincing analysis of the events in Austria during 1929.

Graph 3.2: Yield spread between the League Loan and the Austrian Gold Loan Jan. 1927 to Dec. 1929



Legend: D: General Elections 24 Apr. 1927. E: Vienna riots 15 Jul. 1927. F: Wiener-Neustadt Demonstrations 7 Oct. 1928. G: Seipel Resignation 3. Apr. 1929. H: Fatal Clash in St Lorenzen, Styria, 18 Aug. 1929. K: BKA crisis 7 Oct. 1929.

Sources: Daily quotations as given by the Neue Freie Presse.

The yield spread between the League and Gold bonds rose steeply before the Vienna riots on 15 July 1927 (*Graph 3.2:* Column E), but following the unrest the spread remained fairly stable, thus confirming once more that the riots did not increase investor anxiety. The spread remained fairly low during 1928 and early 1929 because the radical price swings of the League loan, which we noticed above, were mirrored by similar movements in the price of the Gold loan, indicating that investors had not modified their views about the likelihood of a government default. This, however, changed with Seipel's resignation (*Graph 3.2:* Column G), after which the spread continuously widens. Following the fatal violence in St. Lorenzen in August, anxiety increased, indicated by the yield spread, which widened a bit more quickly (*Graph 3.2:* Column H). Those fears were only amplified when the merger between the BKA and the Credit-Anstalt was announced in early October (*Graph 3.2:* Column K).

The increased agitation during 1929 can be clearly seen to have worried Austrian investors, who, after Seipel's resignation in April, demanded a higher yield from the Gold loan in compensation for the mounting risk of a sovereign default. Chancellor Seipel's decision to step down inaugurated a period of increased uncertainty among investors, which was then further aggravated by the clash in St Lorenzen in August and the BKA crisis in October 1929.

The agitation of the Heimwehr in 1929 created a feeling of insecurity about Austria, both in Vienna and abroad, in a way that the unrest on 15 July 1927 had not. The fact that the riots in July 1927 were put down brutally but swiftly by Seipel and the police had helped to calm the markets. It is not unreasonable, then, to assume, as many historians have done, that withdrawals provoked by political unrest forced the BKA's hands and pushed it into the ill-fated merger with the Credit-Anstalt. However, the historical consensus that an unexpected panic gripped Vienna in September does not seem substantiated by our analysis. Rather, anxiety, fear and uncertainty about Austria's political and financial stability had been growing since Seipel's resignation in April. It would be difficult to confirm the positions of Gullick and Ausch, which most strongly linked the political unrest with the financial collapse of Austria's second largest bank, just by relying on the ANB report. With the help of financial data, however, we have been able to establish with certainty that political turmoil in Austria translated into financial jitters as early as Spring 1929 and continued to grow until it resulted in a run on Vienna's banks, which brought down the already ailing BKA.

Our results should come as a comfort to many a historian. Not just because they solve a conundrum of Austrian interwar history, by showing that BKA's collapse, and thereby that of its inheritor, the Credit-Anstalt, were as much a consequence of misguided national politics as of faulty management and banking. Also, however, because they show that the post-modern turn, which bequeathed a discipline-wide aversion to positivism, does not have to end in the full-fledged abandonment of any quantitative analysis. Historians do well to remember that national statistics are so often ideologically biased, but they should not discredit all quantitative data modernity has produced as manufactured or problematic *per se*. Financial data are an excellent example of quantitative source material that can be approached without the need for painstakingly studying how it was compiled, and which, as has been demonstrated above, can be shown to reveal much interesting information about the conditions people lived in, how they perceived them, and how they felt about them.

