

Italian multinational banking in interwar east central Europe¹

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The scholarly literature frequently indicates that the crisis of the early 1930s shook the foundations of continental European universal banks. On the one hand, it led to government intervention in order to rescue exposed banks from collapse. On the other, it undermined their ability to sustain industrial commitments and marked, in many cases, the end of universal banking. However, most contributions have only analysed such issues within these banks' respective national boundaries.² Consequently, only few studies of the development over this period of universal banks' multinational investment have been undertaken. Largely, such issues have been dealt with only tangentially. For example, it has been suggested that the 1930s financial crisis led to a shift in activities of universal banks from multinational banking to short-term funding.³

¹ I am grateful to Professor Geoffrey Jones and an anonymous referee for their comments on a draft, and to Dr F. P. Pongolini for her kind assistance during my research in the archives of Banca Commerciale Italiana, Milan.

² For background, see J. Bouvier, 'The French banks, inflation and the economic crisis, 1919–1939'; G. Hardach, 'Banking and industry in Germany in the interwar period 1919–1939'; C. P. Kindleberger, 'Banking and industry between the two wars: an international comparison'; and R. Nötel, 'Money, banking and industry in interwar Austria and Hungary', all in *Journal of European Economic History*, 13, special issue (1984). See also A. Teichova, 'Rivals and partners: banking and industry in Europe in the first decades of the twentieth century', in H. Matis (ed.), *The Economic Development of Austria Since 1870* (Aldershot, 1994); C. H. Feinstein, P. Temin and G. Toniolo, 'International economic organisation: banking, finance and trade in Europe between the wars'; and F. Weber, 'From imperial to regional banking: the Austrian banking system, 1918–1938', both in C. H. Feinstein (ed.), *Banking, Currency and Finance in Europe Between the Wars* (Oxford, 1995).

³ See for example E. Bussière, 'The interests of the Banque de l'Union Parisienne in Czechoslovakia, Hungary and the Balkans, 1919–1930', in A. Teichova and P. L. Cottrell (eds), *International Business and Central Europe 1918–1939* (New York, 1983); idem, *Paribas 1872–1992. Europe and the World* (Paris, 1992); idem, *Horace Finaly, banquier, 1871–1945* (Paris, 1996); R. di Quirico, 'Il sistema Comit. Le partecipazioni estere della Banca Commerciale Italiana tra il 1918 et il 1931', *Revista di Storia Economica*, 12 (1995); G. Piluso, 'Le banche miste sui mercati esteri: strategie e geografie di una espansione multinazionale', in *La formazione della banca centrale in Italia. Atti della giornata di studio in onore di Antonio Confalonieri* (Turin, 1994); D. Stiefel, 'The reconstruction of the Credit-Anstalt', in Teichova and Cottrell, *International Business*; and idem, 'Austrian banks at the zenith of power and influence. System and problems of the Austrian finance capital from the 1890s to the international economic crisis of the 1930s', in Matis, *Economic Development of Austria*.

There is also a continuing debate over whether universal banks could have avoided and/or minimised the effects of the 1930s crisis had their managements been more careful regarding lending to domestic industry. It is generally recognised that ties between industry and banking initially contributed to industrial strength but, over time, led to a wave of crashes that characterised interwar banking. However, some authors have blamed the banks' substantial industrial indebtedness for the 1930s crisis while praising British and French banks' more 'conservative' practices.⁴ Others have rejected this criticism, asking for a careful scrutiny of the economic realities of the 1920s, and concluding that the 1930s crisis would have occurred even if such banks had previously acted with 'exemplary caution'.⁵

This article examines the interwar development of multinational investment undertaken by the most prominent Italian universal bank – Banca Commerciale Italiana [hereafter BCI] – in Bulgaria, Hungary, Poland and Romania, countries referred to here as east central Europe. It analyses the extent to which considerations concerning universal banking's development are valid in the case of Italian multinational investment in east central Europe. It is neither a study of the 1930s financial crisis nor an analysis of the Italian universal banking per se. The article recognises that BCI, like its Austrian and German counterparts, was exposed to comparable contextual developments, but questions the implicit relationship between the fate of its east central European commitments and the universal banking system's general problems during the early 1930s. Evidence suggests that BCI's withdrawal from this region, beginning in the late 1920s, was more a result of managerial shortcomings and unsound investment decisions and not because of the crisis.

The discussion is divided into four sections, followed by a conclusion. The first provides a brief rehearsal of the concept of, and historical debates over, universal banking, and offers an analytical framework for the analysis of BCI's multinational investment in east central Europe. Section II comprises a summary history of BCI emphasising its independent policy during most of the interwar period. Section III focuses on BCI's multinational investment and underlines the importance of east central European assets within the context of the bank's overall foreign direct investment [hereafter FDI]. Aspects regarding BCI's entry modes in the region are also analysed in detail. The fourth section considers the growth of BCI's multinational investment in east central European industry and banking, highlighting features of its regional investment strategy. BCI emerges as a highly independent institution led by an authoritarian banker whose industrial vision and ethnic-biased investment decisions proved to be very costly even before the 1930s crisis. The conclusions reinforce the idea that the difficulties of the 1930s represented a back-

⁴ See for example P. L. Cottrell, 'Aspects of Western equity investment in the banking systems of East Central Europe', in Teichova and Cottrell, *International Business*; G. Jones, *British Multinational Banking 1830–1990* (Oxford, 1993); and Weber, 'From imperial to regional banking'.

⁵ See for example J. Jonker and J. L. van Zanden, 'Method in the madness? Banking crisis between the wars, an international comparison', in Feinstein, *Banking, Currency*; and T. Balderston, 'The banks and the gold standard in the German financial crisis of 1931', *Financial History Review*, 1 (1994).

ground to, rather than the main cause of, the collapse of BCI's most important investments in east central Europe. A more satisfactory explanation points towards the need for appropriate managerial skills to maintain foreign assets, together with the efficient allocation of the banks' financial resources when investing abroad.

I

Universal banks are institutions well known for their particular links with industry. They provide a complete range of commercial and investment services to their industrial clients and such services involve stable, long-lasting relationships. Many have tried to explain their economic rationale. Hilferding coined the term 'finance capital', or capital applied to industry, and considered that this assisted capitalist development within continental Europe. He viewed the banking-industry relationship from the creditor-debtor point of view and proclaimed the banks' supremacy over industry.⁶ Subsequently, Gerschenkron applied the concept of 'finance capital' to a model of economic backwardness, drawn from Russian experience, concluding that universal banks and/or governments acted as substitutes (depending on a country's degree of backwardness), for the lack of capital and entrepreneurship which was the driving force within developed nations. According to him, universal banks performed a kind of 'missionary' task for industry.⁷

In fact, universal banking appears as more of a consequence than a cause of European industrial development from the 1850s. Recent research challenges generalisations regarding banks' 'supremacy' over industry and/or their allegedly 'missionary task'. Tilly has shown that, in the German case, industrial credits represented only 20 per cent of industry's needs since most client companies preferred self-financing.⁸ Teichova has also argued that relationships between German heavy industry and banking fails to confirm the traditional view.⁹ The Austrian and Italian cases have been analysed by Stiefel, Eigner, Vasta and Baccini in surveys of interlocking directorships tying banking and industry with the conclusion that the power relationship could be more appropriately described as 'reciprocity, of mutual support and assistance, a community of interests'.¹⁰ For Cameron, universal banks were

⁶ R. Hilferding, *Finance Capital. A Study of the Latest Phase of Capitalist Development* (London, 1981).

⁷ A. Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (Cambridge, Mass., 1962).

⁸ R. Tilly, 'German banking 1850–1914: development assistance for the strong', *Journal of European Economic History*, 15 (1986). In addition, German companies also held credit balances at various banks, not just with their traditional bank.

⁹ A. Teichova, 'Rivals and partners: reflections on banking and industry in Europe, 1880–1983', in P. L. Cottrell, H. Lindgren and A. Teichova (eds), *European Industry and Banking Between the Wars. A Review of Bank-Industry Relations* (Leicester, 1992), pp. 17–18.

¹⁰ Stiefel, 'Austrian banks', p. 361; P. Eigner, 'Interlocking directorships between commercial banks and industry in interwar Vienna', in A. Teichova, T. Gourvish and A. Pogany (eds), *Universal Banking in the Twentieth Century. Finance, Industry and the State in North and Central Europe* (Aldershot, 1994); idem, 'Bank-industry networks: the Austrian experience, 1895–1940', in P. L. Cottrell (ed.), *Rebuilding the Financial System in Central and Eastern Europe, 1918–1994* (Aldershot,

far from 'missionary' in their industrial dealings, being rather profit maximisers and risk minimisers while not offering their support blindly.¹¹ In the same vein, Rudolph has explained that universal banks were not 'venturesome substitutes for entrepreneurship' as their managements preferred to finance only the most profitable companies with favourable prospects which had overcome the difficulties and risks of their start-up phases.¹² Tilly adheres to the same opinion, calling finance capital 'development assistance for the strong'.¹³

Most of these characteristics also applied to universal banking's investment abroad. It should be remembered that Viennese and Berlin banks acquired foreign industrial shares only after their traditional sources of profits – government bonds and railway securities – were no longer available. More often than not, the banks' managements were disinterested in retaining industrial shares acquired in exchange for credits and so frequently traded them on the Viennese and Berlin markets. When markets were depressed, it has become clear that such banks did not extend industrial credits out of a 'deliberate strategy of business diversification' but due to their clients' illiquidity and the desire to avoid a crash in which all chances to recover industrial debts would be lost.¹⁴ It was only in very few cases that a bank's management looked to retain its foreign industrial client's shares indefinitely, thus transforming credit provided into FDI.

The 1930s financial crisis represented a major turning point in the evolution of the universal banking system. Transforming short-term credits into industrial shares rendered these banks vulnerable to the changing fortunes of capital markets. A prolonged crisis could have devastating effects upon their liquidity.¹⁵ The crisis's impact upon universal banks' domestic, and sometimes multinational, affairs has attracted substantial attention from scholars. On the one hand, both Toniolo and Weber have argued that, even without the war and the 1930s financial crisis, universal banks would have 'collapsed under their own weight'. In their views, the involvement of deposit-taking banks in industrial promotion was inherently pro-

1997); and M. Vasta and A. Baccini, 'Banks and industry in Italy, 1911–36: new evidence using the interlocking directorates technique', *Financial History Review*, 4 (1997).

¹¹ R. Cameron (ed.), *Banking and Economic Development. Some Lessons of History* (New York, 1972), pp. 3–25.

¹² R. Rudolph, 'Austria 1800–1914', in Cameron, *Banking and Economic Development*, p. 43.

¹³ Tilly, 'German banking', p. 146.

¹⁴ R. Rudolph, *Banking and Industrialisation in Austria-Hungary. The Role of Banks in the Industrialisation of the Czech Crownlands, 1873–1914* (Cambridge, 1976).

¹⁵ In fact, Weber has shown that universal banks had been already experiencing problems before 1913. Their assets were considerably tied up in industrial shares which could not be easily liquidated. To cater for their industrial clients' financial needs, Viennese banks began taking foreign short-term credits and lending long-term credits to industry. This strategy undermined their capital basis. However, the profitable opportunities opened up by the First World War made the universal banking system's economic problems less obvious. During the war, the banks engaged in armament financing and the placement of war loans and so were able to rebuild their hidden reserves. See F. Weber, 'Universal banking', in H. James, H. Lindgren and A. Teichova (eds), *The Role of Banks in the Interwar Economy* (Cambridge, 1991), pp. 19–25.

cyclical and brought instability to the financial system. Therefore, the interwar years witnessed 'the collapse of an illusion'. The universal banking system was a 'historical experiment, an attempt to create an anti-cyclical banking policy based on which banks would counteract the adversities of the business cycles as well as the structural economic and political changes in East Central Europe'.¹⁶ On the other hand, Jonker and van Zanden have defended the legitimacy of banks' 'unsound' commitment to industry, and showed that bank managements had few options during a 'prolonged and severe- to hyper-inflation'.¹⁷ To them, banking investment in industry during the 1920s was a logical outcome of postwar inflation. Banks had substantial cash reserves and invested in anything that promised a return. This was largely the case of the multinational investment undertaken by banks of French, British and Italian origin. During the immediate post-1918 period, they took advantage of political changes to extend their activities in east central Europe and undertake universal banking functions.

This article follows the debate and, based upon BCI's activities in interwar east central Europe, distinguishes between the 'rational' decision to invest and the subsequent management of foreign assets. It emphasises that, from a historical perspective, prudent investment decisions and good managerial skills were, in any consideration, as important as the often mentioned crisis. Obviously, the events of the early 1930s affected BCI's relationships with its foreign industrial clients and limited its ability to sustain multinational investments abroad. However, it remains to be seen whether or not BCI's withdrawal from east central Europe was solely a reflection of the 1930s banking crisis.

II

BCI was established in 1894 as a universal bank by a group of foreign banks during a period when the Italian banking system was undergoing a major transformation.¹⁸ German banks played a predominant role in its formation, subscribing 75 per cent of its capital; the rest being provided by Swiss and Austrian banks, while Italian

¹⁶ Weber, 'Universal banking', p. 24. See also G. Toniolo, *Banca e industria fra le due guerre. Atti del convegno conclusivo della ricerca promossa dal Banca di Roma in occasione del suo primo centenario* (Bologna, 1981), p. 132.

¹⁷ Jonker and van Zanden, 'Method in the madness?', pp. 77–94.

¹⁸ The financial crisis of 1893–94 forced into liquidation the two largest Italian commercial banks (Credito Mobiliare and Banca Generale) and the vacuum was filled with foreign capital, especially German. Apart from BCI, other new institutions emerged: Banca d'Italia in 1893 and Credito Italiano in 1895. Banca d'Italia was a result of a merger among three issuing banks and assumed soon afterwards the characteristics of a central bank. The Credito Italiano was, like BCI, created with foreign capital and became the second largest universal bank in Italy. Both had head offices in Milan. For more details, see G. Toniolo, *One Hundred Years, 1894–1994. A Short History of the Banca Commerciale Italiana* (Milan, 1994); and V. Zamagni, *The Economic History of Italy 1860–1990* (Oxford, 1993), pp. 133–56.

participation was insignificant.¹⁹ Thereafter, BCI encouraged other foreign banks to participate in augmentations of its capital and consequently, by 1901–2, the proportion of German shareholdings in it had fallen to 8.6 per cent. However, German executives retained important positions,²⁰ running the bank until Italy became engaged in the First World War when its ‘Italian-ness’ came under scrutiny. Although German executives were then forced to leave, the influence of German banking practices continued at BCI through its general manager, G. Toeplitz, a Jew of Polish origin who led it from 1917 until 1933.

BCI was the largest Italian universal bank, followed by Credito Commerciale, Banca di Roma and Banca di Sconto. The latter two remained modest establishments with neither support from foreign banks nor operations abroad. Before 1918, all four occupied a central place in the domestic banking system with their share of total joint-stock bank assets having risen from 75 per cent in 1914 to 90 per cent in 1917.²¹ Zamagni has analysed their early industrial involvement, concluding that they conducted themselves as universal banks and not as industrial holdings. Confalonieri provides details about the dynamics of BCI’s credits to local industry (mainly electricity, steel, engineering/shipbuilding and textile companies), and shows an increase in volume during the period 1924–30.²²

Before 1914, BCI engaged in trade finance for a number of Italian firms operating in the Balkans in spite of obvious opposition from Austrians and Germans whose interests in this region were, in this way, rivalled by Italians. Much to German and Austrian banks’ annoyance, BCI also promoted close relationships with the French financial world.²³ Moreover, there was a great deal of aversion between the Milanese bank and the Italian authorities in Rome – Banca d’Italia and the Treasury. First of all, BCI traditionally collaborated with its international partners rather than Rome-based institutions.²⁴ During the 1907 Italian banking crisis, BCI even opposed Banca d’Italia’s measures, refused to participate in its syndicates to rescue other banks and sabotaged the attempt to save the third largest commercial bank – Società Bancaria Italiana.²⁵ Second, Banca d’Italia’s governor, a former civil servant, was more sensitive to the Italian state’s political and administrative needs than those of the financial community. Third, BCI and the Italian government held divergent views over foreign policy. Forsyth has shown how BCI’s management was reluctant

¹⁹ BCI’s initial capital was of \$3.9 m. (L20 m.) and the German founders were represented by: Berliner Handels Gesellschaft, Deutsche Bank, Bank für Handel und Industrie, Disconto Gesellschaft and Dresdner Bank. See Toniolo, *One Hundred Years*, p. 28.

²⁰ Zamagni, *Economic History*, p. 144. By 1906, of BCI’s 31 directors, 14 were Italians, 4 French, 3 Swiss and 7 Germans.

²¹ *ibid.*, pp. 230–42.

²² A. Confalonieri, *Banche miste e grande industria in Italia 1914–1944*, 1 (Milan, 1994), pp. 507–625.

²³ Toniolo, *One Hundred Years*, p. 48.

²⁴ D. J. Forsyth, ‘The rise and fall of German-inspired mixed banking in Italy, 1894–1936’, in James et al., *The Role of Banks*, p. 183.

²⁵ D. J. Forsyth, *Politics and forced accumulation. Monetary and financial policy in Italy between 1914–1922*, Ph.D. thesis (Princeton University, 1987), p. 15.

to participate in those overseas investments that, although reinforcing Italy's colonial and imperial policy, promised indifferent or uncertain economic returns.²⁶

After the war, the bank successfully defended its independence against the take-over attempts of some Italian industrialists who wanted to get hold of its reserves. BCI rejected the assaults of the Perrone brothers which were supported by Ansaldo, the large industrial concern.²⁷ Toeplitz maintained the tradition of his predecessors, preserving BCI's independence vis-à-vis single interests. This strategy substantially influenced BCI's multinational investment.

If the years 1922–25 had been favourable for BCI's business, the stock market fall during 1925 signalled the beginning of a difficult time. BCI decided to 'sail against the tide' and continued to buy securities in order to protect its portfolio's value. This policy included a substantial purchase of its own shares in order to sustain their price and so signal to the markets its soundness.²⁸ As a result, BCI gradually turned into an industrial holding, and became preoccupied with the survival of its industrial empire rather than profit-maximising banking business. Banca d'Italia tried to provide financial assistance, but this was insufficient and BCI asked for foreign short-term deposits (then a typical syndrome for continental banks). Therefore, the 1930s crisis caught BCI with its assets tied up in industrial credit and a net foreign indebtedness (especially when American short-term funds were withdrawn from Europe). However, Toeplitz did not wish to surrender his institution's independence in exchange for government financial assistance.²⁹ It was only in 1931, under pressure from his own staff, that Toeplitz asked for state support, fully aware of the 'costs' involved.³⁰ In 1933 he was forced to resign, BCI was nationalised and surrendered its industrial portfolio to the Italian state. Subsequently, the bank could only perform commercial operations. Toniolo has shown that, despite substantial state involvement in financial intermediation, BCI was allowed considerable independence.³¹ The question is: how did these events affect BCI's multinational investment in east central Europe?

²⁶ Forsyth, 'The rise', p. 184.

²⁷ G. Toniolo, 'Italian Banking, 1919–1936', in Feinstein, *Banking*, pp. 296–314.

²⁸ *ibid.*, pp. 303–4.

²⁹ As Toniolo has shown, for BCI 'era necessario continuare a sostenere l'attrezzatura industriale del Paese da una parte e il mercato finanziario dall'altra'. However, Credito Italiano was more cautious and gradually divested with help from the Italian state. See G. Toniolo, *L'Economia dell'Italia fascista* (Rome, 1980), p. 209.

³⁰ See *ibid.*, p. 211, for the 'orgogliosa resistenza di Toeplitz a una riduzione della sua Comit (BCI) a semplice istituto di credito ordinario'; Zamagni, *Economic History*; and G. Malagoldi, 'Il "salvataggio" della Banca Commerciale nel ricordo di un testimone', in G. Toniolo (ed.), *Industria e banca nella grande crisi 1929–1934* (Milan, 1978).

³¹ Under a new management appointed from within the bank, BCI was reorganised as a large deposit bank. Immediately after the Second World War, BCI created Mediobanca, a special institution for long-term industrial finance that used pre-1933 managerial expertise and the bank's foreign connections. See Toniolo, 'Italian banking', p. 313.

III

Of the two largest Italian banks that invested abroad, it was only BCI that invested to a large extent in east central Europe after 1918, although following the development of other foreign interests. The first destination for Italian banks' resources was Latin America, home of a large community of Italian emigrants. In 1906, BCI had bought shares of Banca Commerciale Italo-Brasiliano, São Paulo. In 1910, the latter was incorporated into Banque Française et Italienne pour l'Amérique du Sud (Sudameris) which spread throughout South America.³² Within Europe, BCI located in neighbouring countries and major financial centres. In 1908, it acquired an interest in Banca della Svizzera Italiana, Lugano, and, by 1911, had opened a subsidiary in London. BCI also made an attempt to invest in the Balkans, offering financial assistance to several Italian trade and transport companies: Compagnia di Antivari, Società Commerciale d'Oriente and the Danube-Adriatic railway. However, due to the resistance of its German and Austrian executives, BCI failed to establish a more permanent pre-1914 presence.

BCI's banking group comprised subsidiaries, affiliates, associates and representatives.³³ Subsidiaries were banks wholly owned and controlled by BCI. Affiliates arose from BCI holding a majority of their shares, stakes which allowed continuous and direct control. With regard to associated banks, BCI either held a majority of their capital and shared control with a minority shareholder or, without a significant ownership, could control, along general lines, the respective institution's policy. Finally, representatives had no autonomy and were established to provide BCI with information about a potential market.

Table 1 shows that, before 1914, BCI had two associated banks and a subsidiary. Major expansion abroad occurred after 1918 and was directed towards new markets such as the Middle East and east central Europe. According to Mattioli (appointed BCI's managing director in 1933), the value of its foreign interests at the nadir of the 1930s crisis was then approximately \$300 m., or 22 per cent of total assets. In his 1933 report, he estimated east central European ventures at approximately 30 per cent of BCI's entire foreign assets – a substantial share for relatively recent investment.³⁴ BCI had established a strong presence in east central Europe during 1919–20. It acquired one of the largest European timber businesses within the region and established banking affiliates in Bulgaria, Hungary and Romania. In 1927

³² Sudameris was a partnership with Paribas. Initially, Paribas had a majority but after 1919 BCI took the lead.

³³ For a detailed analysis of the evolution of the BCI group, see de Quirico, 'Il sistema Comit'; G. Piluso, 'Le banche miste italiane 1906–1933', *Historia de Empresas e Desenvolvimento Economico* (1996); and idem, 'Le banche miste in Sud America: organizzazioni, strategie, mercati (1905–1921)', *Archivi e Imprese*, 13 (1996).

³⁴ Archivio Storico BCI [hereafter AS BCI]; Mattioli's report, cart. 3, 1933. The share of BCI's interests in east central Europe was even more impressive (44%) if only the affiliated banks were considered. The conversion rates from Italian lira to US dollars are based on the exchange rates in R. L. Bidwell, *Currency Conversion Tables. A Hundred Years of Change* (London, 1970), p. 31.

Table 1. *The BCI group, 1909–33*

	<i>Headquarters</i>	<i>Branches</i>	<i>Year of formation</i>
<i>Associated banks</i>			
Sudameris	Paris	30	1910
Banka Handlowy w Warsovie	Warsaw	17	(1927)
Banco Italiano	Lima	8	(1919)
Banca della Svizzera Italiana	Lugano	4	(1909)
<i>Affiliated banks</i>			
Bicitrust New York	New York	1	1924
Bicitrust Boston	Boston	–	1929
Bicitrust Philadelphia	Philadelphia	1	1929
Bancomit Corporation	New York	–	1928
Comit-France	Paris	10	1918
Romcomit (BCIR)	Bucharest	8	1920
Bulcomit (BCIB)	Sofia	3	1919
Banca Ungaro Italiana (BUI)	Budapest	20	1920
Comit-Hellas	Athens	3	1928
Banca Commerciale per l'Egito	Alexandria	9	1924
Banca Italo-Guauaquil	Guayaquil	1	(1923)
<i>Subsidiaries</i>			
BCI	London	–	1911
BCI	New York	–	1918
BCI	Istanbul	–	1919
BCI	Izmir	–	1928
<i>Representatives</i>			
Hrvatska Banka	Zagreb	1	(1928)
–	Berlin	–	1924 (?)

Source: BCI AS files, Matioli's 1933 report, cart. 3.

one more east-European institution joined BCI's group as an associated bank – Handlowy Bank, Warsaw, the largest Polish private bank.

BCI's east central European investments took place under the direct guidance of G. Toeplitz who, until 1924, collaborated closely with the Austro-Italian financier, Camillo Castiglioni. Born in Warsaw, Toeplitz was a distant cousin of O. Joel, one of BCI's promoters, who brought him to the bank in 1895. Until 1906 Toeplitz was manager of BCI's branches in Naples and Venice; thereafter, he became manager at the Milan head office and, in 1917, was appointed joint managing director with Pietro Fenoglio. When Fenoglio retired in 1920, Toeplitz remained sole managing

director until 1933.³⁵ He relied on a limited number of close collaborators – directors of BCI, such as G. Malagoldi, and Ludovico Toeplitz, his brother, who also became very much involved in BCI's east central European affairs.³⁶

Castiglioni was a Trieste-born financier of Jewish origin who, before 1914, had gone to Vienna where he became a leading figure in international finance. Prior to 1917, he was counsellor for the Anglo-Austrian Bank, one of the most important Viennese universal banks which had extensive shareholdings in east central European banking and industry. Thereafter, Castiglioni became President of Allgemeine Depositenbank and turned this second-rank Viennese institution into a first-rank bank. Segato has shown that Castiglioni possessed effective negotiating skills. While at the 'Anglobank', he had been involved in discussions for issuing Balkan and Turkish government loans on the London and Paris markets. His reputation as an outstanding negotiator was enhanced in 1921, when he represented Italy at the diplomatic disputes between Hungary and Austria over their borders.³⁷ Furthermore, Castiglioni was able to exploit information collected in Vienna on business opportunities in the region. He acquired industrial interests in Hungarian rubber and German and Austrian automobile companies.³⁸

After 1918 Castiglioni expanded his financial and economic 'empire' and renewed contacts with both the president of the Hungarian Agrar Bank and the managing director of Depositenbank. Both banks were subsequently conducted as BCI's affiliates in the region. Based upon knowledge and experience acquired in Vienna, Castiglioni outlined a strategy to the Ministry of Foreign Affairs for Italian economic expansion in Austria.³⁹ Therefore, Castiglioni had much to offer to BCI. Familiar with the economic and financial environment in the former Dual Monarchy, he had already established his own industrial empire and was now interested in promoting Italian interests abroad. BCI was the bank that could offer financial assistance to

³⁵ Toniolo, *One Hundred Years*, p. 51.

³⁶ Malagoldi has described the role played by the Toeplitz brothers within the bank as follows: 'troppo grande era la sua autorità, troppo incontrollate il suo potere e il suo modo di agire. Troppo determinante la sua influenza, anche a crisi iniziata ... Troppo forte il suo carattere ... un'intelligenza, uno 'charme', un'esperienza, un'onesta personale, una estraneità all'intrigo politico, una capacità di lavoro del tutto fuori del comune. Se la Comit [BCI] era allora una banca che irradiava la sua attività in tutto il bacino Mediterraneo, in tutta Europa, e poteva racconciare ed estendere tale tela, una larga parte di merito va a G. Toeplitz e al suo fratello minore, Ludovico.' See Malagoldi, 'Il "salvataggio"', p. 274.

³⁷ L. Segato, *L'internazionalizzazione della finanza italiana. La Banca Commerciale Italiana e Camillo Castiglioni 1919–1924*, unpublished Tesi di Laurea (Università degli Studi di Milano, 1991).

³⁸ Eigner has called people like Castiglioni 'financial sharks', who took advantage of the inflation years 1918–22 to acquire cheap shareholdings in east central Europe. See Eigner, 'Bank-industry networks', p. 102. See also C. Murgescu (ed.), *Contributii la istoria capitalului strain in Romania. De la sfirsitul primului razboi mondial pina la iesirea din criza economica din 1929–1933* (Bucharest, 1960), pp. 89–91.

³⁹ See Segato, *L'internazionalizzazione: 'memoriale sulla necessità di assicurare all'Italia una posizione importante nella vita bancaria di Vienna'* ['memorandum on the necessity to promote Italy as a central player in the banking life of Vienna'], pp. 56–7.

his ever-expanding industrial domain. Thus, after 1919, Castiglioni and Toeplitz collaborated to promote BCI's interests in east central Europe.

Interwar east central Europe became an important destination for BCI investment for at least two reasons. First of all, it had a significant trading potential for Italian firms, which could export industrial goods (especially machinery) in exchange for cereals, tobacco, timber and oil.⁴⁰ Second, after the war, favourable business opportunities developed. With the emergence of independent states, the victorious powers could take up shares in the largest east central European banks and companies. Previously, most had been under German and Austrian influence, but from 1919 the governments of the highly nationalistic successor states wanted to liquidate this control. Lacking indigenous capital, they encouraged French, British, Italian and Belgian investors. Furthermore, foreign investment was also rendered attractive by inflation and currency depreciation that scarred this region. As a result, French and British banks were already expanding their pre-1914 holdings, strongly supported by their governments.⁴¹

However, the choice of a market-entry strategy was not easy for Toeplitz as BCI was at a disadvantage compared to its foreign rivals in at least two respects. First, its management could not expect much support from the Italian government. This was due partly to the bank having always undertaken an independent policy vis-à-vis the authorities in Rome and partly because there was no agreement amongst Italian government bodies over what foreign economic policy to adopt. The Treasury warned that Italy had insufficient financial means to pursue foreign economic expansion, while the Ministry of Industry and Trade was ready to sustain the interests of local industrialists who wanted to operate overseas.⁴² Nevertheless, existing legislation did not prohibit Italian FDI. A 1919 decree, by which firms required Treasury permission to export capital, was not a real constraint. Second, unlike French and British banks, BCI had no previous holdings in the area upon which to build. Moreover, the largest banking institutions of the Dual Monarchy were already the subject of competition between BCI's foreign rivals.

In these circumstances, Toeplitz chose Vienna as a stepping-stone for BCI's advance into east central Europe, setting up a wholly-owned subsidiary in 1918 – Società Generale Commissionaria [Sogenara], with branches at Trieste and Prague.⁴³ The financial centre of the former Austro-Hungarian Monarchy still attracted international businessmen and bankers with whom Toeplitz sought to

⁴⁰ R. A. Webster, 'Una speranza rinviata. L'espansione industriale italiana e il problema del petrolio dopo la prima guerra mondiale', *Storia Contemporanea* (1980).

⁴¹ See for example Bussi re, 'The interests of the Banque de l'Union Parisienne'; idem, *Paribas 1872–1992*; idem, *Horace Finaly*; Cottrell, 'Aspects of Western equity investment'; C. Natme nig, 'The establishment of the Anglo-Czechoslovak Bank: conflicting interests', in Teichova et al., *Universal Banking in the Twentieth Century*; and A. Teichova, 'Versailles and the expansion of the Bank of England into Central Europe' in Matis, *Economic Development of Austria*.

⁴² See Webster, 'Una speranza rinviata'.

⁴³ At the same time, Credito Italiano established its own institution in Vienna as well – Vinitalo – with the same aim of marking a presence.

establish connections. This is how Toeplitz met Castiglioni and their encounter proved essential for BCI's subsequent investments in east central Europe. They combined interests and, in 1919, Sogenara was transformed into Banca Italiana di Credito Commerciale [hereafter Itabank], based in Milan with branches in Vienna and Trieste. It was to manage the industrial assets of both Castiglioni and BCI within the region, Castiglioni becoming its vice-president.⁴⁴ Itabank's Viennese branch represented BCI's interests on the local market, but its low business volume suggests that Depositenbank, over which Castiglioni presided, was BCI's real representative in Vienna. In a few months, Toeplitz had managed to gain a Viennese bank on his side (Depositenbank), due to the intermediation of Castiglioni. Networking compensated for BCI's initial regional disadvantages, whereas it took two years of negotiations for French and English banks to penetrate the Viennese banking system (although at a different level in terms of ownership and control).⁴⁵ At the same time, Itabank undertook operations decided upon between Toeplitz and Castiglioni. Within a few days of its establishment, Itabank subscribed for shares in what would be BCI's most significant east central European industrial investment – Foresta SA, Milan.⁴⁶

Foresta was established in July 1919 to acquire the business of a former Austro-Hungarian bank – Creditinstitut Ungarischer Holzhändler AG, Budapest [hereafter Holzbank] – which had provided credits to timber exploitation/processing plants and sold their products in Europe, Italy included. Before 1914, Holzbank had financed 24 plants within the Dual Monarchy, mostly located in Transylvania. After the war, it could not recover credits and its Austrian management approached Castiglioni in the hope of attracting Italian capital without losing control. Initially, BCI granted Holzbank a \$2 m. loan, while Castiglioni contemplated taking it over,⁴⁷ which he discussed with Toeplitz and Holzbank's managers.⁴⁸ It was decided that Holzbank would become an Italian company, with headquarters in Milan and an administrative office in Vienna, although all its operations were in Czechoslovakia, Hungary, Poland, Romania and Yugoslavia. BCI subscribed for a majority (80.7 per cent) of its capital, followed by Depositenbank-Castiglioni and Itabank (eight per cent each), Paribas (three per cent) and the former Austro-

⁴⁴ Segato, *L'internationalizzazione*. Itabank's capital totalled \$2 m. and was subscribed by BCI (32%), Castiglioni-Depositenbank (20%) and groups of Milanese and Trieste bankers.

⁴⁵ E.g. Paribas's investment in Länderbank and the intervention of the Bank of England in Anglo-Austrian Bank. For background, see P. Segal, *The French state and the French private investment in Czechoslovakia, 1918–1938. A study of economic diplomacy*, unpublished Ph.D. thesis (Columbia University, 1983); and Natmeßnig, 'The establishment of Anglo-Czechoslovak Bank'.

⁴⁶ Segato refers to Itabank as an institution which put into practice the ideas already decided by Toeplitz and Castiglioni, 'solo da mero intermediario di operazioni già decise a Milano tra Toeplitz e Castiglioni' *L'internationalizzazione*, p. 51.

⁴⁷ AS BCI: FOR (esta SA per l'Industria ed il Commercio del Legname) 1919–1928, VCA minute, 6 Mar. 1920.

⁴⁸ AS BCI: FOR I, fasc. 3, 'Memorie diverse sulle imprese (acquisite da Foresta). Stato juridico e preliminari della costituzione di Foresta: 1919–1922', Verbale, 25 Jul. 1919.

Hungarian managers (0.3 per cent). While Italians held a majority of directorships and occupied top positions in the managerial hierarchy (Toeplitz president and Castiglioni vice-president of its executive committee), Foresta continued to be run by its former managers. It was by far the largest ever investment of BCI in east central Europe – \$18.3 m. out of a total FDI of approximate \$100 m.⁴⁹

Castiglioni insisted that BCI should establish banking affiliates in Hungary and Romania to assist Foresta's enterprises financially. Consequently, in 1920, Banca Commerciale Italiana e Romena, Bucharest [hereafter BCIR], and Banca Ungaro-Italiana, Budapest [hereafter BUI], were formed and soon became important local banking institutions. But they were not BCI's first Balkan affiliates. One year earlier, BCI created Banca Commerciale Italiana e Bulgara, Sofia [hereafter BCIB], to finance Italo-Bulgarian trade.⁵⁰ It subscribed for 98 per cent of BCIR's shares and appointed a majority of directors (including Ludovico Toeplitz) and the administrator delegate, E. Allievi. BCIB in Sofia soon became the most important Bulgarian credit institution and was involved in most significant local affairs.⁵¹ It provided credits and guarantees for Italian export/import and transport companies, had an Italian president and its board of directors were in close contact with BCI's Milan headquarters.⁵²

BCIR had a Romanian president, a politician who was not involved in its management. In fact, the board minutes show that Italians were in full control.⁵³ The bank had eight local branches and, apart from following closely Foresta's affairs, it offered credits and bought majority shareholdings in other Romanian industrial companies. These acquisitions were largely of portfolio type since BCIR did not exercise control over them.⁵⁴

BUI was a result of a merger, suggested by Castiglioni, between the Budapest branches of Allgemeine Depositenbank and Länderbank. BCI acquired 75 per cent of the capital and assumed majority control. Italians nominated its president and vice-president and obtained a majority of directorships. BUI opened 11 local branches and, apart from assisting Foresta's plants locally, acted as a commercial bank and financed trade between Hungary and Italy.⁵⁵ In 1920, BUI took over the

⁴⁹ AS BCI: FOR 1, VCA minute, 6 Mar. 1920. To the initial investment of BCI in Foresta of \$11.5 m., BCI added another \$6.8 m. through subsequent capital increases. \$100 m. represents the estimated investment by BCI in the region according to Mattioli's 1933 report. Also refer to Table 2.

⁵⁰ AS BCI: ST (Secretaria Toeplitz), cart. 21, fasc. 2, Z. Ottarino, 'Promemoria sulla costituzione della BCIR', Jan. 1920.

⁵¹ AS BCI: Mattioli report, 1933.

⁵² AS BCI: CP, T (copialettere Toeplitz), vol. 37, letters from Milan, 20 Oct. 1924.

⁵³ AS BCI: VCA, 'Repertorio di Società, enti ed affari diversi', minute, 2 Jul. 1920. See also AS BCI, Fondo SE (Servizio Estero), s (Segreteria estera), cart. 39, fasc. 3, BCIR.

⁵⁴ AS BCI: microfilm, Directia Generala a Arhivelor Statului, Bucharest, minutes of BCIR, 28 Jun. 1921. Among the largest Romanian companies in which BCIR acquired shares were Phoenix SA, Oradea (a railway components manufacturer) and Astra SA, Arad (a wagon manufacturer).

⁵⁵ AS BCI: SE, d (dirigenti), cart. 18, fasc. 13, 'Promemoria di Cucia su Bankunit', 17 Oct. 1942.

Table 2. *The structure of BCI's investment in east central Europe, 1919–33 (in \$)*

<i>Years of investment</i>	<i>Banking FDI</i>	<i>Credits to industry through banking affiliates</i>	<i>Industrial FDI</i>
1918–24	0.085 (BCIB)	0.043 (BCIB/OTK)	11.5 (Foresta)
	0.812 (BCIR)	0.377 (BCIR/Phoebus)	6.8 (Foresta)
	0.015 (BUI)	5.34 (BUI)	0.04 (OTK)
	<i>Sub-total: 0.912</i>	<i>Sub-total: 5.76*</i>	<i>Sub-total: 18.34</i>
1925–33	2.00 (Handlobank)	2.7 (BCIR/Lujani)	0.22 (Lujani)
	2.62 (BUI)	17.5 (Handlobank)	
	<i>Sub-total: 4.62</i>	<i>Sub-total: 20.2*</i>	
Total 50.052	5.532	25.96	18.56*

Source: BCI AS files. The items marked by * must have been larger than the author was able to trace in the files consulted.

shares of Agrarbank, Budapest, whose president, A. Eber, subsequently became BUI's president for almost 20 years.

Compared with the investment in Foresta, BCI's FDI in east central European banking affiliates was insignificant (barely \$1 m.).⁵⁶ However, as they were established to provide financial assistance to BCI's industrial ventures in the region, these affiliates benefited from considerable credits from the BCI group. They were usually converted into shareholdings and fulfilled the role of a 'once-and-for-all' investment. Table 2 presents, in comparative perspective, BCI's investment and credits to east central European industry and banks. Data account for only a portion of BCI's investment in the region (according to Matioli), being drawn from the files consulted in the archives.

In conclusion, within two years, collaboration between Toeplitz and Castiglioni facilitated BCI's entry into a completely new market where the existing presence of French and British institutions was such that BCI alone would have not stood many chances. The association between the BCI banker and the Trieste financier also compensated for the relatively passive attitude of the Italian government vis-à-vis BCI's expansion business abroad over the immediate post-1918 period. Unlike Foresta, a major investment for BCI, the banking affiliates in east central Europe did not require a substantial financial effort from the bank, although credits allocated seemed to be at least five times larger than the initial investment.

IV

After a rapid expansion within Bulgaria, Hungary and Romania to 1921, BCI's management began to experience problems in both industrial and banking activities.

⁵⁶ The exact amount was \$912,750 divided as follows: \$85,000 in BCIB; \$812,000 in BCIR and only \$15,750 in BUI. See Table 2.

Two main aspects need to be mentioned for they affected BCI's affairs within the region for the rest of the decade. First of all, collaboration between Toeplitz and Castiglioni came to a sudden end in 1924. Castiglioni was accused of involving Depositenbank in an unsuccessful speculative bear attack against the French franc. The Viennese bank incurred a substantial loss and collapsed, while Castiglioni was sent to jail but, given his connections (Toeplitz included), he managed to leave Austria.⁵⁷ Second, for most of the interwar years, BCI undertook its overseas activities without major interference from the Italian government. In 1922, the fascist government came to power with the intention of launching an attack on BCI's leadership, but refrained due to a fear of negative reactions amongst domestic and foreign business groups.⁵⁸ Consequently, Toeplitz remained the unchallenged leader of BCI until 1933. After nationalisation, BCI complied with the fascist government's political goals.

Foresta was BCI's major industrial investment in east central Europe but generated sizeable losses and almost failed. Initially, the company offered promising perspectives as it exported timber to most of Europe, Turkey and North Africa and, during the First World War, had commenced furniture production. Its market position was consolidated during its first years of existence under BCI through horizontal and vertical integration, and the acquisition of a timber monopoly in Europe.⁵⁹ By 1921, Foresta had more than 38 branches and exported on a large scale to Italy. It is therefore very surprising that such a business did not produce the expected rewards. In fact, Foresta's profitability was undermined by several factors, both internal and external. First of all, although Toeplitz and Castiglioni occupied leading positions in its hierarchy, they had to delegate operative management to its former owners. It was clear from the first stages of their negotiations that the Austro-Hungarians did not want to lose business control.⁶⁰ Therefore, Foresta retained a predominantly Austro-Hungarian character. This did not help its business as the postwar economic and political environment in east central Europe differed from pre-1914 conditions so that the former managers had few comparative advantages.⁶¹ Second, Foresta's organisational structure was not well suited for a 38-plant

⁵⁷ For more information, see Segato, *L'internationalizzazione*. From Austria Castiglioni went to Germany and afterwards to the USA. He returned to Italy only after the end of the Second World War.

⁵⁸ Forsyth, 'The rise', pp. 193–4.

⁵⁹ AS BCI: FOR 3, fasc. 4. Foresta bought 100% of the shares in Hungarian Union Forstindustrie of Budapest and 50% of Romanian Goetz SA, Bucharest. In order to sustain Foresta's trade, BCI integrated vertically and bought 60% shares in Società Granaria, which specialised in cereal exports to Italy. Other Italian companies in which BCI acquired majority shares were Società Italiana per il Mar Nero and Lloyds Triestino. See AS BCI: VCA, Sta. Granaria, minute, 27 Feb. 1919; 28 Feb. 1923; 2 Jul. 1924 and MN VCA minutes, 23 Oct. 1919 and 18 May 1922.

⁶⁰ AS BCI: FOR 1, fasc. 3, 'Memorie', VCA minute, 25 Jul. 1919.

⁶¹ Among the most prominent who ran Foresta's Viennese administrative were: A. Fonagy, general director (also vice-president of BUI and counsellor of Foresta SA, Milan); B. Grosz and O. Golfinger, directors (also involved in other Austrian, Czechoslovak and Romanian affairs). See AS BCI: FOR 1, *ibid.*, VCA minute, 1 Aug. 1921.

enterprise, split across five countries. Although its headquarters were in Milan, operative decisions were taken in Vienna (apart from those over strategic issues).⁶² The spatial distances between factories, spread across so many countries, and the administrative office in Vienna, and between the latter and the Milanese headquarters, must have hindered the communication process and information exchange, so essential in running a multi-plant business. Finally, these deficiencies were amplified by several external factors, such as poor transport conditions and a lack of railway equipment in the region.⁶³

Aware of these inefficiencies, the managers proceeded to partially restructure Foresta. In 1921, they set up branches in each host country to centralise business at a national level. The Viennese office retained its central role in decision-making and was directly connected with the newly-created branches.⁶⁴ Thereafter, it soon became clear that most eastern European plants were unprofitable and Toeplitz appointed Rossi, BCI's expert on east central European affairs and counsellor to Foresta, to investigate the exact situation. He travelled extensively and produced lengthy reports regarding the main problems.⁶⁵ Taking the Romanian case as an example (where most production units were located), Rossi noted that local enterprises did not employ a unitary accounting system and, frequently, their accounting methods were inadequate. In addition, these enterprises were run by unprofessional managers, open to bribery and unaware of basic business principles. By 1922, the Romanian branch, which centralised the accounts of all local timber enterprises, was heavily indebted to BCIR.⁶⁶ Rossi suggested that, in order to identify loss-makers, each enterprise should open its own account with BCIR. He also mentioned the negative effects of the local depreciating currencies, and of increasing Russian competition on the European timber market.

Another restructuring process took place in which loss-making enterprises (mostly Czechoslovakian and Hungarian), were liquidated.⁶⁷ As a result, Foresta's activities became largely concentrated on the Romanian market. It acquired a main

⁶² AS BCI: FOR 4, fasc. 4, 'Prospetti e Relazioni di bilancio 1919–1926', VCA minute, 22 Mar. 1921.

⁶³ AS BCI: FOR 4, *ibid.*, VCA minute, 31 Dec. 1921.

⁶⁴ These subsidiaries: Foresta Romana SA, Bucharest; Foresta Magyar, Budapest; and Polska Foresta, Warsaw had modest capital endowments and relied greatly on credits from BCI's group, through its local affiliates, BUI and BCIR. Magyar and Polska Foresta had only a distribution function. The Romanian subsidiary had acted not only as a domestic cartel but, with financial assistance from BCIR, had a major role in distributing credits to Foresta SA's local enterprises. See AS BCI: FOR 1, fasc. 4, balance sheets, 31 Dec. 1921; and C. Savio, *La BCI e l'Europa Centro-Orientale: la società Foresta (1919–1933)*, unpublished Tesi de Laurea (Milan University, 1993).

⁶⁵ AS BCI: VCD (Verbale del Comitato di direzione), 22 Apr. 1931–31 Mar. 1933 and FOR, cart. 4, Statuti e Bilanci 1921–25 and fasc. 5, Accordi e Convenzione, 30 Aug. 1926.

⁶⁶ By 1922, Foresta Romana SA's debts amounted to \$0.75 m. or 40 times more than the capital invested initially in that branch.

⁶⁷ AS BCI: FOR 3, fasc. 4, minute, 31 Dec. 1922.

rival, Goetz SA, a well-managed and prosperous local timber business, and so became the country's largest timber company.⁶⁸ However, these structural changes failed to improve the deficit with BCI and, from 1920, Foresta was unable to distribute dividends. Four years later, its debts were twice the amount of its equity.⁶⁹ It may be inferred that the Viennese managers, even if familiar with the industry, were unable to run Foresta in the new circumstances. Toeplitz made a last attempt to restructure the business when he met the German-Jewish Rosenberg brothers, known for their experience in timber industry and trade.⁷⁰ They took over Foresta's management in 1924 but could not resolve its problems.⁷¹ Its administrative office was moved from Vienna to Bucharest and, later, to Galati, the Romanian Black Sea port, from where timber was shipped to various markets. The Rosenbergs liquidated all non-Romanian enterprises while acquiring wagons to address the transport problem. In 1926, at last, exports revived and Foresta recommenced paying dividends.⁷²

However, this recovery was only temporary. Based on Rossi's reports, Toeplitz realised that Foresta required further financial support but BCI could no longer afford credits, given the change in Italian economic conditions from 1925. Toeplitz sought to attract other investors to acquire shares in the company through Foresta being turned into a Swiss holding company – Foresta Romena Holding AG, Zurich [hereafter FRH].⁷³ BCI gradually sold its shares and, by 1934, Rossi was BCI's sole representative on FRH's board. His reports continued to show disappointing results for the business and confirmed Toeplitz's fears.

How did BCI's investments in the region's banking fare? In Romania, BCIR was the fourth largest bank in terms of total assets and financed crop products (cereals and sugar), while acquiring some local credit institutions. Through BCIR, BCI bought shares and offered credits to the Romanian economy's important sectors: timber, metallurgy, oil, banking, electricity and transport.⁷⁴ In this case, too, some

⁶⁸ AS BCI: VCA, Rossi report, 28 Jun. 1923.

⁶⁹ AS BCI: VCA, Foresta SA, minute, 9 Oct. 1924.

⁷⁰ *ibid.*

⁷¹ AS BCI: SOF, cart. 2331, Statuto e Bilanci, Foresta Milano 1921–25. The Rosenberg brothers wrote down the capital of Foresta only to subscribe for 41.6% of its new shares. They were also entitled to 37.5% of the profits the company would have made under their management. Toeplitz shared the vice-presidency of Foresta with A. Rosenberg, while S. Rosenberg became administrator delegate.

⁷² AC BCI: SOF, cart. 231, fasc. 3, Foresta Romena Holding SA, Zurigo, 1931–32; 'Promemoria di A. Rossi', 16 May 1932: Foresta SA distributed dividends of 6%.

⁷³ *ibid.*, 'Promemoria di Rossi'. FRH was set up not only for tax purposes but also for the need to raise capital on the US market.

⁷⁴ AS BCI: SE, d, cart. 12, fasc. 1, Ettore Brunelli's report on the activity of the Italian and German interests in Romania, 12 Apr. 1938. See also Murgescu, *Contributii*, pp. 150–4: BCI investment in Romanian timber and metallurgy represented 23% and 12%, respectively, of the total capital invested.

companies turned into major debtors – the largest, the majority-owned railway component supplier, Phoenix SA, Oradea, was due to it not being paid punctually by the Romanian government for deliveries. The government discriminated against Phoebus, given its ‘foreign’ ownership and BCIR divested in 1937.⁷⁵ The second largest was a sugar company, Lujani SA, to which BCIR had granted important credits, guaranteed by shares.⁷⁶ Lujani SA, whose main shareholder was the Viennese Credit-Anstalt, was badly affected by the 1931 financial crisis. When the Viennese bank collapsed, BCIR received 36 per cent of Lujani’s shares in exchange for its illiquid credits, but was disinterested in controlling the business and tried to sell it to a group of Romanian and Dutch entrepreneurs who wanted to gain control. However, they lacked financial resources and only acquired a time option on the shares.⁷⁷

These cases illustrate that BCIR gradually avoided any substantial industrial commitment. Under its Italian management, BCIR pursued a high-liquidity policy, based on short-term credits in an attempt to minimise risks. Its industrial portfolio peaked in 1922 and declined dramatically in 1937, following the sale of Phoebus shares to a local company.⁷⁸ BCIR’s reserves were sufficient to cover its industrial debtors’ losses while it distributed dividends of 15 per cent until 1929, and of five to seven per cent from 1935 to 1941. Between 1930 and 1934 BCIR was affected by the financial crisis and, consequently, made no dividend payments.

In Hungary, BUI became the sixth largest bank in terms of assets and seventh in terms of deposits. Most of its credits went to agriculture (58 per cent), the state (25 per cent) and public enterprises (17 per cent).⁷⁹ BUI had few industrial participations; apart from Magyar Foresta, it owned Società di Navigazione Interna, Budapest, the only Danubian transport company that escaped British ownership. The bank did not distribute high dividends due to the Hungarians not allowing dividend repatriation until 1939.⁸⁰ Instead, BUI reinvested its profits in shares held within its portfolio and which were deposited with the Hungarian National Bank. From 1940, it financed bilateral trade that increased due to the political affinities between Hungary and fascist Italy.

However, there was an exception to thriving BCI’s banking activities in the region. At a time when most of its east central European industrial investments were being gradually liquidated, Toeplitz offered large credits to Poland. As a native, Toeplitz was determined to support the largest Polish private bank which, in the

⁷⁵ AS BCI: SOF, cart. 416, fasc. 6, Phoenix.

⁷⁶ AS BCI: VCD (Verbale del Comitato di Direzione), 22 Apr. 1931–33, meeting of 27 Jul. 1932. The total amount of credits to Lujani was \$1.4 m.

⁷⁷ AS BCI: VCD BCIR 1931–33, letter from Rossi to Toeplitz, ‘Relazione sull’industria zuccheri in Romania’, 25 Jul. 1932. There is no evidence on whether or not they finally used the option.

⁷⁸ The industrial portfolio was \$0.377 m. in 1922 and only \$0.047 m. in 1937.

⁷⁹ AS BCI: Mattioli’s report, 1933. They amounted to \$5.34 m. See also Table 2.

⁸⁰ AS BCI: SE, s, cart. 33, fasc. 2, BUI, VCA, 1935–39, Verbale, 9 May 1939.

mid-1920s, was facing financial difficulties. In 1925, BCI offered Handlowy Bank, Warsaw [hereafter Handlobank], a \$2 m. loan in exchange for 42 per cent of its shares. Two years later, BCI participated in a syndicate, which provided another loan, but its stake in the bank fell to eight per cent.⁸¹ Rossi was appointed a Handlobank director on behalf of BCI but, for the Polish bank, BCI was more important as a creditor than as shareholder. It granted Handlobank the largest single credit – 25 per cent of Handlobank's total credits. Furthermore, BCI's credits to Polish industry were three times larger, and channelled through Handlobank.⁸² The total, \$17.5 m., was almost as much as the investment in Foresta.⁸³ One can conclude that Toeplitz had indeed significant power within BCI since he could, single-mindedly, allocate substantial funds to Poland when BCI's industrial investments were giving negative signals about the profitability of the east central European market.

Not surprisingly, Polish industrialists and bankers could not reimburse such credits and BCI ended up with large shareholdings in exchange. Given its unwillingness to engage in industrial development, from 1930 BCI's management began negotiations with the Polish government to recover its credits. However, the government distinguished between BCI's banking and industrial credits and recognised only those which were less extensive.⁸⁴ A compromise was finally reached in 1938, with non-reimbursed industrial credits being compensated by a free supply of coal from Poland to Italy.⁸⁵ On the whole, Toeplitz's initiative to provide financial assistance to the largest Polish private bank and other local companies proved very costly. BCI's Polish involvement ended in 1934 when Toeplitz was no longer on top of the hierarchy. This shows once more that BCI's unprofitable Polish financial commitment was entirely a result of Toeplitz's private interests and, therefore, was liquidated immediately after his departure from the bank.

V

As a universal bank, BCI's business experienced both the expansion and the contraction that the 1920s offered. In a typical manner, up to 1925 its management took advantage of the real economy's rapid expansion and bought industrial shareholdings on the stock exchange. However, soon afterwards, the stock-market boom

⁸¹ The members of the syndicate were: Hambros Bank, Hungarian Commercial Bank of Pest, Banque de Bruxelles and Niederoesterreichische Bank. See Z. Landau and J. Tomaszewski, *Bank Handlowy w Warszawie SA: History and Development, 1870–1970* (Warsaw, 1970).

⁸² AS BCI: SE, s. cart. 2, Handlobank, correspondence BCI, 1929. See also Table 2.

⁸³ *ibid.* Most of the credits granted went to Polish cotton manufacturers, metallurgical firms and the Treasury. The Treasury loan was given in exchange for a tobacco monopoly valid until 1944. In fact, BCI set up a company, Poltabacco, to control the distribution of the Polish tobacco on its behalf.

⁸⁴ AS BCI: SOF, cart. 4–6, fasc. 8: 'Interessi italiani in Polonia, 1934–1937. Promemoria sulle trattative di Varsavia per la sistematizzazione dei crediti del gruppo Comit in Polonia', Apr. 1934.

⁸⁵ AS BCI: Note del dr. Migliorisi sugli affari industriali Polacchi, 1934.

ended and the bank was caught with a large, risky, illiquid and diversified portfolio. Despite its leader's initial resistance, BCI was finally rescued by government intervention although having to surrender its universal banking functions. These events inevitably affected BCI's multinational investment as it could no longer provide further credits abroad. In this context, this article has illustrated that such constraints would not have necessarily brought about the failure of the bank's main investments in east central Europe had its senior management acted more carefully.

The article has also shown that the expansion of BCI in the region was largely a result of Toeplitz's initiative and determination. Notwithstanding valid economic reasons, such as the considerable trading potential and the postwar business opportunities in inflation-driven east central European economies, he had also based his decisions upon non-economic motives, such as his aim to provide Poland with financial assistance during the second half of the 1920s. The timing of BCI's multinational investment in the region was highly auspicious. In less than two years, Toeplitz and Castiglioni had reserved for BCI one of Europe's largest timber companies and three banking affiliates. The only exception was BCI's unfortunate investment in Handlobank that came as a response to Toeplitz's personal aspirations.

Of BCI's overall activities, two investments were particularly remarkable in size: Foresta and Handlobank, accounting for more than a quarter of BCI's total investment in the region. However, both proved troublesome and not only because of the depressed economic conditions during the late 1920s. The case of Foresta demonstrates that BCI was unsuccessful in developing an industrial policy in the region. Toeplitz and Castiglioni were financiers par excellence but had limited knowledge of managing a multi-plant company. They spotted a potentially profitable business opportunity yet were obliged to retain its former management who failed to recognise that, after the war, a radical organisational change was required. The 'outsiders' hired by Toeplitz in 1924 could do nothing but improve the situation temporarily and the business never returned to its pre-1918 level despite several restructurings. Economic conditions after 1925 failed to permit BCI's management to allocate further credits to a declining business, but this was only a secondary explanation for Foresta's failure. Responsibility rested upon the inappropriate management of the company's assets. In conclusion, while the initiative to invest in Foresta was reasonable, its subsequent management was less inspired, unable to overcome the period's economic misfortunes. Toeplitz took the decision to divest, the shares were transformed into portfolio investment and liquidated gradually.

Foresta was not the only example of industrial managerial failure. The Bulgarian tobacco company, Orientabako, was another similar case. BCI and BCIB subscribed for a third of its capital and appointed representatives to its board.⁸⁶ Similar aspects

⁸⁶ The company was created in 1921 with a capital of \$46,000, BCI and BCIB contributing \$15,400 (see Table 2). The rest was subscribed by Bulgarian businessmen and the shares were blocked for 5 years. AS BCI: UF cart. 34, Partecipazioni varie. fasc. 1, Orientabako, Sofia correspondence, 5 Oct. 1921. See also AS BCI: VCA orientabako minute, 18 Oct. 1921.

undermined this business too and, from 1930, Orientabako worked at a loss. After unsuccessful steps to rescue the business, BCI sold it to a German group of tobacco manufacturers, taking advantage of certain compensation agreements negotiated between the Bulgarian and German authorities.⁸⁷

BCI's problems with the Handlobank were also not only connected with the 1930s financial crisis *per se*. They could have been avoided had Toeplitz not decided to invest in Poland at an inappropriate time. The placement became a considerable loss for the Italian bank and was brought to an end as soon as Toeplitz resigned. Thereafter, BCI's management had to undertake lengthy negotiations over its debt with the Polish government. This reveals that appropriate managerial capabilities on the foreign markets were central to the survival of BCI's business in the region, clearly demonstrated in particular by its banking investment. Its affiliates, established to assist Foresta, were run by its own experts. Appointed for long periods of time, Allievi, Marchesano, Rossi, Eber and L. Toeplitz were BCI's main representatives who ran BCIR, BCIB and BUI and preserved continuity of operative management.⁸⁸ Although they too experienced problems, they were able to adjust and survive since loss-making industrial shareholdings were liquidated in a timely manner to focus the affiliates' businesses upon bilateral trade finance. They adopted a cautious lending policy and the banks survived until post-1945 nationalisation,⁸⁹ distributing high dividends through most of the interwar period.⁹⁰

This article has tried to add another dimension to the arguments put forward by Jonker and van Zanden regarding the 'soundness' of universal banking industrial investment in interwar Europe. The case of BCI in east central Europe confirms their non-critical view up to a certain point. This region, indeed, displayed potential economic gains and the initial multinational investment was well justified. However, in order to obtain profits, BCI's management would have had to display more prudence in allocating resources and better skills in developing industrial assets abroad. The absence of such elements might have exacerbated the negative effects of the 1930s crisis upon BCI's multinational activities. Its losses could have been kept at a minimum under a less authoritarian leadership with a better management of industrial interests. Where such conditions existed, as was the case with their

⁸⁷ The previous steps refer to the creation of another holding company, 'Tutun' in Lugano, Switzerland. See AS BCI: SE, d, cart. 10, BCIB ispezioni 1932–38, Promemoria sur la liquidation de OTK-Tutun, 17 Feb. 1934.

⁸⁸ Allievi was administrator delegate of BCIR for 8 years. Rossi replaced him for 10 years. Eber presided over BUI for almost 16 years, while L. Toeplitz was vice-president of BCIR and BCIB until 1934. Marchesano stayed 3 years with BCIB and another 3 years with BCIR. For more details, see AS BCI: Mattioli report, 1933.

⁸⁹ See Savio, 'La BCI', on the Italian bank's affiliates in the region: 'sequendo pero una politica di grande circospezione, accaparrandosi le migliori case, transcurando quelle di second'ordine e scartando ogni operazione nel campo agricolo'. Also, AS BCI: Circolare, cart. 15, fasc. 1, Relazione estere 1925–27.

⁹⁰ AS BCI: VCA minutes, 1 Mar. 1928 and 2 Mar. 1929. Also, Cont (abilita), cart. 27, Bilanci Sismi, Lugano, 1922–37.

banking affiliates, investment survived the financial crisis and/or government interference. These observations show that, at least in BCI's case, the 1930s crisis can be blamed for the deterioration of the business climate but not for the extent of losses for which the bank's management was largely responsible. Such findings are consistent with the results on multinational banking FDI in general.⁹¹ Studies of interwar British and French banking FDI have also shown that their industrial activities in east central Europe did not survive when management was unfamiliar and unable to handle the particularities of the region and the unfavourable interwar economic conditions.

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⁹¹ See for example Jones, *British Multinational Banking*, pp. 223–45 and idem, 'Lombard Street on the Riviera: the British clearing banks and Europe, 1900–1960', *Business History*, 24 (1982); Segal, 'The French state and French investment in Czechoslovakia', pp. 191–247; and Cottrell, 'Aspects of Western equity investment'.