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Crisis Management Strategies after World War I

The Case of the Budapest Flour Mills[*]

The history of the big Budapest flour mills reached its finale in the second half of the 1920s. By then, it had been clear to all players that the Hungarian flour mill industry could not return to the prosperity of the nineteenth century and indeed had become one of the many crisis branches of the Trianon economy. The grave problems of the branch were not without antecedents. The big mills in Hungary had begun to lose ground in the global market in the last decades of the nineteenth century. Their declining competitiveness manifested itself in reduced exports, drops in price, and increasing domestic rivalry. The big Hungarian commercial mills sought solutions to overcome their problems that were similar to the solutions adopted by other foreign companies at the time. They strove to cut production costs and increase profits by establishing economies of scale and scope with horizontal and vertical integrations. Companies used basically two means to limit competition between firms: they organized cartels or they merged with their rivals to control their economic environment. In this article, I analyze how these crisis management practices were applied to meet corporate needs in the interwar period. I investigate these questions mainly as a case study of the biggest Hungarian flour milling company, the Első Budapesti Gőzmalom Rt. (First Budapest Steam Mill Co. later: FBSM), based on its archival documents and articles that were printed in the contemporary economic press.

Keywords: crisis, flour mills, Budapest, Hungary, interwar years

> "Only the concentration of forces can alleviate
> the unfavorable conjuncture of the firms nowadays"[1]

The Budapest Steam Mills before World War I

The first phases of the history of the big metropolitan mills are quite well known. Many publications analyze the factors that explained the unparalleled successes thanks to which Budapest became the world's biggest flour milling center in the 1860s and 1870s. The companies, however, proved unable to preserve their

* The article was prepared with the support of the MTA–ELTE Crises History Research Group.

1 "Elvileg létrejött a vidéki malomkoncentráció," *Pesti Tőzsde*, May 13, 1926, 19.

technological advantages and their positions as leaders in the market permanently. From the 1880s on, Hungarian flour exports were gradually forced out of the international markets. Innovative Hungarian grinding methods gained ground in other countries, and this also made it difficult for the Hungarian companies to maintain a competitive edge. Cheap flour arrived from overseas producers and former importers began to make flour using North American, Russian and Argentinean wheat, which from the perspective of quality was in no way inferior to the Hungarian products. The competitiveness of the Budapest firms gradually diminished. They were unable to compete with lower priced milling products of the overseas big firms.[2] This was due in part to the fact that the Hungarian companies were much less productive than their American counterparts. In the US roller milling was associated with lower labor requirements. According to Perren, in 1890 in Minneapolis one worker produced 562.5 tons of flour, whereas in Budapest production was only 136.1 tons per worker.[3] Hungarian statistics show similar data. Thus, thanks to highly mechanized plants and better organization, the efficiency of production in the US was roughly four times higher than in factories in Hungary. Labor productivity did not improve in the later decades either, lagging far behind the values typical in America (Table 1).

	Volume of manufactured flour (1000 tons)	Total employees (persons)	Total workers (persons)	T1	T2
1890	459.3	3420	3048	134.3	150.69
1900	578	3694	3248	156.47	177.96
1910	609.4	4144	–	147.06	–

Table 1: The Productivity of the Budapest Milling Industry (1890−1910)
T1: Production per person, tons
T2: Production per worker, tons
Source:
Magyar Statisztikai Évkönyv, Új Folyam I. (Budapest: Magyar. Királyi Statisztikai Hivatal, 1893), 149. Accessed September 1, 2015, http://konyvtar.ksh.hu/inc/kb_statisztika/statevkonyvek/1893/htm/149.htm.
Magyar Statisztikai Évkönyv, Új Folyam VIII. (Budapest: Magyar. Királyi Statisztikai Hivatal, 1900), 178. Accessed September 1, 2015, http://konyvtar.ksh.hu/inc/kb_statisztika/statevkonyvek/1900/htm/178.htm.

2 Judit Klement, *Hazai vállalkozók a hőskorban. A budapesti gőzmalomipar vállalkozói a 19. század második felében* (Budapest: ELTE Eötvös Kiadó, 2012), 20−34; Judit Klement, *Gőzmalmok a Duna partján* (Budapest: Holnap Kiadó, 2010), 45−47.

3 Richard Perren, "Structural Change and Market Growth in the Food Industry: Flour Milling in Britain, Europe, and America, 1850–1914," *Economic History Review*, 2nd ser., 43, no. 3 (1990): 427−28.

Magyar Statisztikai Évkönyv, Új Folyam XVIII. (Budapest: Magyar. Királyi Statisztikai Hivatal, 1910), 186. Accessed September 1, 2015, http://konyvtar.ksh.hu/inc/kb_statisztika/statevkonyvek/1910/htm/186.htm.
"A magyar korona országainak 1900. évi népszámlálása. Második rész, A népesség foglalkozása községenként," *Magyar Statisztikai Közlemények*, Új sorozat, part 2 (Budapest: Magyar. Királyi Statisztikai Hivatal, 1904), 82–83, 580–81.
"A magyar szent korona országainak 1910. évi népszámlálása. Harmadik rész, A népesség foglalkozása részletesen és a vállalati statisztika," *Magyar Statisztikai Közlemények*, Új sorozat, vol. 52 (Budapest: Magyar Királyi Központi Statisztikai Hivatal, 1914), 396–97. Accessed September 1, 2015, http://konyvtar.ksh.hu/inc/kb_statisztika/Manda/MSK/MSK_048.pdf.

We know from the research done by Judit Klement and György Kövér that the domestic flour industry gradually lost its former leading role in Hungarian industry and its profitability declined as of the middle of the 1880s. Business conditions did not improve in the early twentieth century either. In the years leading up to World War I, price competition grew increasingly intense, as did the struggle for markets. [4]

From Crisis to Crisis – the Interwar Years

The devastations of war, a controlled war economy, and the Romanian occupation of much of Hungary in 1919 caused serious damage to the domestic mills.[5] However, the provisions of the Trianon Treaty and the dismemberment of the Austro-Hungarian Monarchy constituted an almost irreparable blow. The liquidation of a stable common internal market encompassing 51 million consumers placed Hungarian flour exporters, who had sold the majority of their products in the western parts of the Monarchy before 1914, in a very difficult situation. After the war, production capacities proved oversized compared to the volume of domestic cereal production and lower internal demand, which increased production costs significantly. Austria and Czechoslovakia built their own milling industries, defended by customs walls, and they increasingly bought

4 Klement, *Hazai vállalkozók a hőskorban*, 40−55; Idem, "Die Agrarkrise am Ende des 19. Jahrhunderts und die Budapester Mühlenindustrie," in *Krisen/Geschichten im Mitteleuropäischem Kontext. Sozial- und Wirtschaftsgeschichtliche Studien zum 19./20. Jahrhundert,* ed. Márkus Keller, György Kövér, and Csaba Sasfi (Vienna: Institut für Ungarische Geschichtsforschung in Wien, 2015), 167–97; György Kövér, "A budapesti malomipar felemelkedése – a központi bank információi tükrében," in idem, *A felhalmozás íve. Társadalom- és gazdaságtörténeti tanulmányok* (Budapest: Új Mandátum Könyvkiadó, 2002), 298−308.

5 On the damages to the FBSM during the Romanian occupation: Budapest Főváros Levéltára (=BFL) First Budapest Steam Mill Co. XI.1005. box 5, 1918–19, January 21, 1921.

wheat instead of flour in Hungary. Therefore, Hungarian flour gradually lost its traditional markets in the interwar period (Diagram 1).[6]

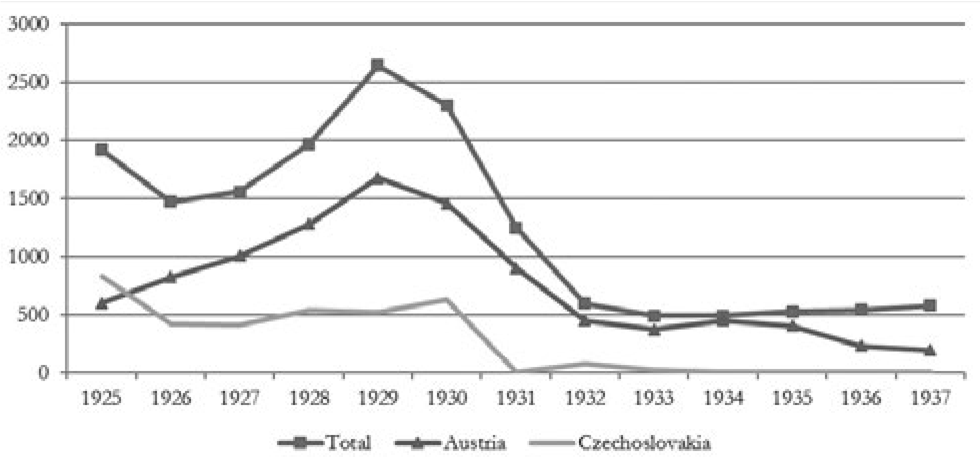

Diagram 1: Wheat flour and grits export of Hungary, 1925–1937 (1000 quintal)
Source: Hungarian Statistical Yearbooks, relevant years

The greatest stock market crisis of the stabilization period was caused by the failure of the Victoria Mill, which had been one of the most successful and largest metropolitan flour mills. In two months, shares in the company lost nearly 90 percent of their value. In December 1925, they were listed at 400 pengő, while in the end of January 1926 they were worth only 57 pengő. In the last week of January, the depreciation of the stock caused 16.8 million pengő in losses to the owners. In February 1926, Victoria was followed by the Concordia Mill, which belonged to the industrial holding of the prosperous Hatvany-Deutsch family. Both general managers, Emil Bacher and Henrik Hönich, committed suicide after the critical situation of their companies had been unveiled. The collapse of the large steam mills was caused by foreign indebtedness, failed large-scale futures transactions on the Chicago produce exchange, and the lack of export opportunities. While in Vienna the banks fell prey to the termination of the inflationary boom following financial stabilization, in Pest it was the flour mills that crumbled. The crisis proved enduring. Share prices in the milling

6 On the situation of the Budapest mills and exports difficulties: *Budapesti Kereskedelmi és Iparkamara éves jelentései*, years 1925–1932; Ernő Szűcs, "A debreceni István Gőzmalom története 1848–1944," *A Hajdú-Bihar Megyei Levéltár Közleményei* 12 (1978): 76–77.

industry did not recover even in the following years, and they showed the worst performance among all securities in the interwar period, according to Katalin Mérő's calculations.[7]

These grave problems have generally been explained in the secondary literature as consequences, in large part, of changes in the foreign markets, the agricultural crisis of the late nineteenth century, the territorial provisions of the Trianon Peace Treaty, and the growing commercial protectionism of the interwar period. However, the question of how these companies reacted to the changes in their economic environment has not been given similar attention. The Hungarian flour mills were not simple sufferers of these shifts in the global markets. They had chances to develop various strategies in order to overcome the difficulties and improve their competitive positions. I analyze the alternatives that were at the disposal of the Hungarian flour milling industry and the ways in which various alternatives were applied.

The Emergence of Big Business in the Late Nineteenth Century

The second half of the nineteenth century witnessed a business revolution, in which an ever-widening range of manufacturing, mining and service companies adopted modern forms of large-scale business. Global big enterprise emerged first in the United States and then spread to other continents. A growing proportion of economic transactions took place within the framework of these organizations. Technological factors prompted vertical integration and the growth of the firms on ways that improved processes allowing for increasing economies of scale. The applied new high-volume technologies resulted in unprecedented cost advantages when economies of scale and scope were sufficiently exploited. Cost advantages, however, were not automatic. The changes demanded not only huge investments in machinery, management and marketing, but also a careful rearrangement of successive processing stages, thorough planning to achieve smooth material flows and speedier throughput. Only obsessive cost control and monitoring of the complex production processes resulted in economies of scale and scope and reduced transaction costs. Only in this case could entrepreneurs exploit the potentials of large-scale business to drive out smaller competitors. Otherwise, production costs radically increased, and huge losses appeared due to

7 Ágnes Pogány, "A Pesti Victoria Gőzmalom összeomlása," *Korall, Társadalomtörténeti folyóirat*, 14 (2003): 98–116; (K.) "A Concordia-malom titka," *Pesti Tőzsde*, April 1, 1926; Katalin Mérő, "Részvényárfolyamok alakulása a budapesti értéktőzsdén, 1864−1943," *Statisztikai Szemle* 65, no. 12 (1987): 1258.

high fixed capital costs compared to labor costs. Corporations typically increased their scales by vertical or horizontal integration, mergers and acquisitions. According to Chandler, investments in domestic and international marketing and distribution were perhaps the most important elements in establishing these big industrial firms, because they ensured that the volume of sales keep pace with the new volume of production.[8]

In some branches, such as oil refining, metallurgy, or food processing, continuous flow techniques and economies of speed were more easily obtained. Modern flour milling technology was especially well-suited for reorganization in this new corporate framework. It was no coincidence that large-scale industrial enterprises emerged relatively early in this branch of industry. Hungarian investors recognized these huge potentials when they established new, high-volume grinding capacities to produce homogenous, standardized output in the 1870s. However, Hungarian entrepreneurs did not imitate wholly the American or German big corporations. The Budapest flour mills had many unique features. They were smaller in size and horizontal and vertical integration and product diversification were not typical at the time.

The American model involved the mass marketing of mass produced articles in part through the establishment of sales and marketing departments within a company and frequently the development of a retail sales network. Huge advertising campaigns ensured the massive growth of sales volume. In Hungary, on the other hand, the typical practice was to use wholesaler grain-merchant firms and commercial agents for the purchase of raw materials and the sale of the produce, because firms could rely on well-established commercial services that had functioned well already before the creation of big industrial corporations. Therefore, Hungarian mills did not invest in the creation of their own marketing facilities, and they were possibly less ready to seek out new markets for their flours or promote the retail−trade of their products than their North American rivals. According to Judit Klement, Hungarian roller mills had extended networks of flour agents, and they employed brokers and consignees. They might have had some marketing campaigns abroad as well, based on surviving foreign-language posters and advertising leaflets.[9] Big American flour mills, on the other hand, increased sales by diversification and the development

8 Alfred D. Chandler Jr., *Scale and Scope: the Dynamics of Industrial Capitalism* (Cambridge–London: The Belknap Press of Harvard University Press, 1996), 8−9, 21−34; C. J. Schmitz, *The Growth of Big Business in the United States and Western Europe, 1850–1939* (Cambridge: Cambridge University Press, 2002), 5−9.

9 Klement, *Gőzmalmok a Duna partján*, 71.

of many new products, such as breakfast cereals and other products in the 1920s and 1930s, which were intended for consumers with higher incomes who were more open to ready-to-eat foods than Hungarian consumers. In the US flour mills developed their own brands in the late nineteenth century. Product diversification in Hungary remained modest. Some enterprises built biscuit or horse fodder plants. Others started to bake bread during World War I in order to increase their profits. The FBSM started to make crackers, and other flour mills began to clean rice and barley, or established malt-kilns in the grave crisis at the end of the 1920s.[10]

Big American flour milling companies followed the path that Chandler had described. General Mills was established in 1928, following the merger of five flour mills in order to take advantage of economies of scale and scope in both production and distribution. After the merger, General Mills became one of the largest milling companies in the world. In the 1930s, the firm acquired several grocery companies using similar marketing facilities, and it expanded its animal-feed lines, all of which used similar production facilities. In the early 1900s, the Washburn Crosby Company, which later initiated the merger, spent the astronomical amount of $650,000 on advertising its branded flour product. In the early 1920s, the company already had its own advertising department and radio station, which broadcasted radio serials like the *Betty Crocker Cooking School of the Air*, which debuted in 1924 as a means of advertising their various products. By World War II, General Mills had begun to produce toasters and other appliances, which it sold through the outlets that handled its groceries.[11]

This kind of business policy was also followed by many roller mills in Canada. The W. W. Ogilvie Milling Company increased its size by vertical integration and built modern mills with big production capacities. It constructed its own line of elevators through districts that produced the best milling grades of grain. In 1890, the capacity of the Winnipeg mill was 1,800 barrels (bbls) per day,[12] and in 1900 it was 2,500 bbls, but in 1909 the Ogilvies' largest ("Royal") mill in Montreal produced 6,000 barrels (533.4 tons) per day. In the same year, Ogilvie Milling built the "biggest mill in the British Empire" and "probably the

10 József Szterényi and Jenő Ladányi, *A magyar ipar a világháborúban* (Budapest: Franklin társulat, 1933): 266; "A pesti nagymalmok leépítik a gabonaőrlést," *Pesti Tőzsde*, February 15, 1928.

11 Chandler, *Scale and Scope,* 165; History book of the General Mills Company, accessed September 19, 2015, https://www.generalmills.com/en/Company/history.

12 1 barrel wheat flour is 88.9kg, accessed September 1, 2015, https://en.wikipedia.org/wiki/Barrel (unit).

biggest in the world" at its Point Douglas (Winnipeg) site, increasing production from 4,000 to 8,000 barrels (711.2 tons) per day. For the sake of comparison, in 1909 all plants of the FBSM, which had the biggest production capacity of the Hungarian mills, produced only 220.3 tons of flour together. In the 1920s, the Ogilvies, along with the other large milling companies in Canada, expanded into baking and other flour-related businesses, as a way of guaranteeing a market for some of its flour.[13]

The Great Wave of Mergers in the US

Capital-intensive industries, due to the big fixed capital investments, were especially vulnerable to price warfare and competition for markets, because they caused declining sales, deteriorating throughput, overcapacity, decreasing prices and severe losses. Therefore, these industries usually attempted to stabilize their external business environment and strove to control markets, prices and competitors. Basically "three strategies were evident: predatory trade practices, cartelization, and monopolization."[14] In the 1880s, a great merger wave began in the US. A sense of tremendous opportunities associated with exploiting economies of scale and scope in the American market was probably the most important driving force in promoting the merger movement. By the 1890s, the pace of industrial concentration quickened, culminating in a pronounced peak between 1895 and 1903, when an average of 300 firms were absorbed each year.[15] Chandler was of the opinion that this merger movement was the single most important episode in the evolution of modern industrial enterprise in the US from the 1880s to the 1940s. Not only did it set in place the structure of the new, capital-intensive industries and define their major players for much of the rest of the twentieth century, it also permitted the rationalization of American industries in a way that did not begin in Britain or in Germany until the 1920s.[16] The formation in 1882 of the Standard Oil Trust, the first

13 John Everitt and Roberta Kempthorne, "The Flour Milling Industry in Manitoba since 1870," *Manitoba History*, 26 (1993): accessed August 23, 2015, http://www.mhs.mb.ca/docs/mb_history/26/flourmilling.shtml; *Magyar Statisztikai Évkönyv*, Új Folyam 18 (1910): 186, accessed September 1, 2015, http://konyvtar.ksh.hu/inc/kb_statisztika/statevkonyvek/1910/htm/186.htm.

14 Neil Fligstein, *The Transformation of Corporate Control* (Cambridge–London: Harvard University Press, 1993), 2, 12–13.

15 John F. Wilson, *British Business History, 1720−1994* (Manchester–New York: Manchester University Press, 1995), 65.

16 Chandler, *Scale and Scope*, 79−80.

consolidation of forty smaller and bigger petroleum companies into a single giant firm, stimulated many imitations in other industries with the incentives to gain effective control of output, price and market.[17] Among turn-of-the-century mergers, the predominant process was horizontal consolidation, the simultaneous merger of many or all competitors in an industry into a single, giant enterprise.

The simultaneous rapid expansion of many capital-intensive industries in the early 1890s, followed by the deep depression of 1893, gave rise to abnormally serious price wars. Lamoreaux explains the 1895–1904 merger wave in the United States primarily as an attempt to escape the severe price competition that developed during the depression of the 1890s by firms in capital-intensive, mass-production industries, which had expanded rapidly and therefore increased their debt burden on the eve of the 1893 panic. The merger movement came partly because of continuing antirust legislation and activities by the states and partly because of the increasing difficulties of enforcing contractual agreements by trade associations during the depression of the mid-1890s.[18]

Similar processes took place in Great Britain and Germany. From the 1890s until the late 1920s, large oligopolies came into existence by means of horizontal and vertical integrations to exploit economies of scale and scope. In Germany, cartelization did, however, inhibit horizontal merger activity as a means of concentrating production, largely because the security afforded by cartels provided little incentive to acquire competitors. On the other hand, mergers associated with vertical integration and diversifications were common. By 1907, only 5 of the 100 leading German industrial corporations remained undiversified, while 88 had indulged in some form of vertical integration (forward into sales and distribution, or backward into securing supplies of raw materials). Merger activity had contributed significantly to fashioning this integrated structure.[19]

17 David S. Landes, "A Rockefellerek – Szerencse, erényesség és vallásosság," in idem, *Dinasztiák, családi vagyonok és vagyonos családok* (Budapest: Partvonal Kiadó, 2007), 245−75.

18 Naomi R. Lamoreaux, *The Great Merger Movement in American Business, 1895–1904* (Cambridge: Cambridge University Press, 1988); Chandler, *Scale and Scope*, 75, 79−80; Schmitz, *The Growth of Big Business,* 59−60.

19 Wilson, *British Business History*, 72−73; Schmitz, *The Growth of Big Business*, 59−60; Ulrich Wengenroth, "Germany: Competition Abroad – Cooperation at Home, 1870−1990," in *Big Business and the Wealth of Nations,* ed. Alfred D. Chandler Jr. et al. (Cambridge: Cambridge University Press, 1997), 139−75; 152−53.

Crisis Management Strategies of the Hungarian Flour Milling Industry

What follows from all this for the big Budapest steam mills? My argument is that they faced difficulties similar to those faced by large corporations abroad at the turn of the century. The pioneering entrepreneurs made investments in facilities and personnel that were large enough to drive out the smaller, higher-cost firms, but with increasing overseas competition Hungarian flour mills became plagued by overcapacity, declining throughput, and rising costs as a consequence. Increasing output and capacity only intensified competition and drove down prices even more. On both continents the standard response by manufacturers to intensified competition and the resulting price decline was first to reach informal agreements as to price and output and then to make more formal agreements (enforced by cartels or trade associations) to reduce output, set prices and allocate regional markets. When all of these strategies proved unsuccessful, then they often resorted to mergers.[20] Similarly, in Hungary, flour mills developed various concepts to solve the crisis and restore market dominance in the middle of the 1920s. In the following, I analyze these crisis-management attempts in the case of the First Budapest Steam Mill Company (FBSM).

Cartel or Merger?

Before World War I, several forms of looser cooperation had emerged among the metropolitan commercial flour mills. According to Vilmos Sándor, the first agreement on the use of sacks came into being in November 1869. In the 1870s, manufacturers came to an understanding on the conditions of flour shipment, credit granting and the borrowing of sacks. These agreements proved very short-lived, however.[21] The big Budapest mills concluded an agreement on the purchase of wheat before 1873, and by 1882 they formed a cartel to reduce the volume of output when needed. The cartel was renewed from time to time according to Kirsch. In 1887, another agreement was reached on the terms of flour sale, number and quality of flour types, forms of packing, and the repurchase of sacks.[22] Although in 1912, the contemporary economist and social democrat

20 Chandler, *Scale and Scope*, 71–72.

21 Vilmos Sándor, "A budapesti nagymalomipar kialakulása (1839–1880)," in *Tanulmányok Budapest múltjából,* vol. 13 (Budapest: BTM, 1959), 383.

22 János Kirsch, "Malomipar," in *A magyar élelmiszeripar története*, ed. idem et al. (Budapest: Mezőgazdasági Kiadó, 1986), 106.

Jenő Varga wrote explicitly about a flour milling cartel that had reduced output to prevent the fall of flour prices from time to time,[23] Judit Klement denies the existence of a broader milling cartel before 1914. According to her, one can find precedents only for occasional cooperation, but not all metropolitan flour mills joined these associations. They were not able to reach a permanent agreement even on a temporary reduction of output for a couple of months in the year.[24]

World War I had brought about significant changes. The organization of a centralized war economy represented a kind of forced cartelization which reduced the autonomy of the flour milling companies considerably.[25] After the war, many elements of the war economy, such as public provision of flour for the public employees or state control of exports, had remained in effect until financial stabilization and the shortage of wheat and coal made stronger cooperation also reasonable. Following the fall of the Soviet Republic in 1919, the metropolitan flour mills concluded an agreement with the government. It was decided that, of the 13 Budapest flour mills, 7 were to be closed down. The government was ready to cover the costs not only of those mills that were kept in operation, but also of those which were shut down, and this was particularly favorable for the firms.

> This period was the time of daily lengthy talks with the existing government, and it was next to impossible to imagine that it would have been possible to protect the common interests without common administration.[26]

In these early post-war years, a so called milling concentration had been formed, which was renewed yearly until the summer of 1925. The functioning mills operated on a common profit or loss basis, on common account. The millers' fee and the working conditions were set by a contract made between the mills and the Futura Trade Corporation of Hungarian Cooperative Centers (*Futura, Magyar Szövetkezeti Központok Áruforgalmi Rt.*), which was the successor of the war-time economic organization War Produce Co. (*Hadi Termény Rt.*). The flour

23 Jenő Varga, "A magyar kartellek," in idem, *A proletárdiktatúra gazdaságpolitikája. Válogatott írások, 1912–1922* (Budapest: Kossuth Könyvkiadó, 1976), 78.

24 Klement, *Gőzmalmok a Duna partján*, 46–47; Judit Klement, "Vállalatok hálózatban, Vállalati kooperáció a 20. század elején a budapesti gőzmalomiparban," *Korall* 50 (2012): 82−106.

25 Sándor Farkasfalvy, "Malomstatisztika," *Magyar Statisztikai Szemle* 4 (1926): 83–88.

26 Magyar Nemzeti Levéltár Országos Levéltára (=MNL OL) Z40 Pesti Magyar Kereskedelmi Bank, Projektumok, 2009/2. batch 52, item 949. *Egyes magyarországi nagyobb malomcsoportok és nagyobb malmok egyesüléséről,* January 18, 1926; Kirsch, "Malomipar," 118.

mills established a common office for the control and settlement of common receipts and expenses, which functioned successfully according to the director of the FBSM.[27] The many difficulties after the war brought the firms closer to one another; the business federations the Hungarian Metropolitan Milling Association (*Magyar Fővárosi Malomegyesület*) and the National Association of the Provincial Milling Industrialists (*Vidéki Malomiparosok Országos Egyesülete*) therefore formed a common steering committee to help foster closer cooperation.[28] In the early 1920s, the managers of the Budapest mills still looked optimistically to the future, and they believed in the return of the better export opportunities of the prewar years. This optimism did not last long, however. It evaporated soon after the end of the inflationary boom.

Raising the Milling Concentration from the Dead

During the process of financial stabilization following hyperinflation, the government liquidated the last elements of the war economy; discontinued the public provision of flour, and liberated flour exports. These measures terminated the principal reasons to sustain the milling concentration, so it was closed on July 15, 1925.[29] A ruthless life-or-death war for markets began among the corporations as a consequence.[30] In spite of the competitive struggle, many milling companies wanted to return to forms of cooperation. The leadership of the FBSM was also assured that "the concentration was absolutely necessary, considering the low utilization of the grinding capacities."[31]

A draft to revitalize the terminated milling concentration was made by the general manager of the FBSM Sándor Stux who wanted to invite even the representatives of the Austrian and provincial mills to the talks on the new cartel. The negotiations had been carried on for several months in early 1925,

27 BFL XI.1005. box 5, EBG, General Assembly of the year 1918–1919, January 21, 1921., 7; Kirsch, "Malomipar," 115; BFL XI.1005. box 10, Társulás és üzemösszevonás szüksége a magyar malomiparban és annak módozatai.

28 BFL XI.1005. box 5. Report of the board of directors on the business year 1918−1919, January 21, 1921, 7.

29 MNL OL Z40 2009/2. 52. item 949, *Egyes magyarországi nagyobb malomcsoportok és nagyobb malmok egyesüléséről,* January 18, 1926.

30 Henrik Hönich, "A magyar malomipar megmentése," *Pesti Tőzsde*, August 20, 1925, 1−2; Ármin Láng, "Malomiparunk helyzete," *Pesti Tőzsde*, February 21, 1926.

31 BFL XI.1005. Secretariat, documents, box 2. General Assembly, documents and minutes. General Assembly of the year 1924, May 11, 1925, report of the board of directors.

but they ended with a fiasco.[32] The always well-informed economic weekly *Pesti Tőzsde*[33] had reason to believe that the milling concentration was prevented by Emil Bacher, since he did not want to join the cartel with the provincial flour mills of the Victoria Mill.[34] The only matter the Budapest mills were able to agree on was the reestablishment of the milling agreement which had been in force before the war. It concerned albeit only questions of minor importance, such as the uniform payment and shipment terms of flour sales and had started from August 1925 on. The provincial firms joined later as well.[35]

In the springtime of 1926, before the ensuing grinding season, plans for the creation of a milling cartel came up again. This time, the provincial mills initiated the negotiations, sending out a special commission to solve the problems. Originally, they planned a cartel for the provincial flour mills which was to grow to nationwide proportions later on. The government strongly supported the agreement; they attributed the collapse of the Concordia and Victoria and the crash of many smaller flour mills to the absence of the milling cartel in the first place.[36] The press reported in May that an agreement among the provincial mills had been reached. About twenty to twenty-five country mills joined the arrangement, which was developed on the basis of a proposal made by Lipót Schrecker, general manager of the Borsod-Miskolci Steam Mill, which belonged to the Hatvany-Deutsch milling group. The participants agreed on the basic principles, but the final compromise was not yet reached. The cartel was to assume joint control of procurement and sales through a central administration.

> The concentration should begin in early July and work on common profit. The brand names of the provincial mills are to remain in use, but purchases and sales will be carried out according to the instructions of the central administration.

Unfortunately, not everyone agreed on these terms. Géza Aczél, general manager of the Back Mill which had plants in Győr and Szeged, opposed the Schrecker-plan. Instead, he proposed an output reduction in the country mills by fixing and dividing weekly or monthly quotas. Nevertheless, the majority accepted the

32 Hönich, "A magyar malomipar megmentése," 1−2.

33 *Pesti Tőzsde* (Pest Exchange) was an economic weekly that appeared every Thursday. It was edited by János Kallós, who also published the business yearbook *Kallós-féle Compass*.

34 "A Victoria malomnál minden rendben, de Bacher megosztja hatalmát," *Pesti Tőzsde*, January 21, 1926, 3; (K.) "A Concordia-malom titka," *Pesti Tőzsde*, April 1, 1926.

35 "Augusztus 1-től feltámad a malomegyezmény," *Pesti Tőzsde*, July 9, 1925, 13.

36 "A kormány sürgeti a malomkoncentrációt," *Pesti Tőzsde*, March 4, 1926, 5.

first proposal during the negotiations. The organizers of the cartel did not want to omit the major Budapest mills from the agreement, inasmuch as most owned significant provincial plants. *Pesti Tőzsde* was informed that Emil Bacher was not hostile to the cartel this time. On the contrary, he wished to join it with his flour mills.[37] Baron Károly Hatvany and Lipót Schrecker had to convince Sándor Stux, the head of FBSM, the biggest flour mill in Hungary. His words were of especially great importance, since in the summer of 1926 he was elected to the position of cochairman of the Hungarian Metropolitan Milling Association and he had become a councilor on the Stock Exchange a few weeks earlier.[38]

The Big Mill Merger

Nevertheless, it became clear by the end of May that FBSM did not support the Schrecker-plan and had other ideas concerning inter-firm cooperation instead; they planned a much more radical organizational transformation. According to the journalist writing in *Pesti Tőzsde*, the idea of the big merger appeared as early as the last months of 1925. Not only Sándor Stux supported the plan, so did the head of the Concordia Mill, Henrik Hönich.

> [The essence of the project was] to merge all Budapest and four or five leading provincial mills into a single corporation and in doing so to create a new joint stock company with huge capital, the shares of which would be listed on the stock exchange, and the securities of all participating firms would be exchanged for shares in the new trust company.[39]

The talks concerning the big merger fell through again because of the resistance of the provincial mills, and the concept was struck from the agenda after the outbreak of the milling crisis at the turn of 1925–1926.[40]

Although several plans were drawn up to relieve the grave crisis, it soon became obvious that the companies were unable to agree and accept any of them, albeit the government pressed vehemently for the bargain, principally with regards to exports. The minister of commerce, Lajos Walko, who had to face an increasingly deteriorating balance of payments after the financial stabilization,

37 "Elvileg létrejött a vidéki malomkoncentráció," *Pesti Tőzsde*, May 13, 1926, 19.

38 "Stux Sándor a Malomegyesület feladatairól és a malomkoncentrációról," *Pesti Tőzsde*, July 8, 1926, 5.

39 "Koncentráció vagy tröszt a malomiparban," *Pesti Tőzsde*, May 27, 1926, 9.

40 Ibid., 9.

summoned the heads of the big Budapest mills to a consultation in the summer of 1926.[41] At the meeting, Stux also explained that he regarded the cartel plans as useless and did not support them because it would have been impossible to convince 3,000 flour mills to comply with the rules of the cartel, but even the 350 commercial mills would have been too many for a cartel. Administration would also have been too expensive.[42] His reasoning was hardly a surprise; the most recent research had also proved that the majority of the cartels were especially vulnerable and short-lived. It was extremely difficult and costly to frame such controlling mechanisms that could force the cartel members to keep the agreement, since the temptation to cheat was too great. It seemed profitable to offer products below the prices fixed by the cartel or to fail to meet other terms of the agreement.[43] Consequently, the FBSM sought a solution in horizontal integration, which promised much higher cost savings than a simple cartel. Stux was convinced that "only a merger is expedient from the point of view of the rationalization of technology and personnel."[44] According to the correspondent writing for the *Pesti Tőzsde*, FBSM wanted to merge with four big flour mills in the summer of 1926. The Gizella, the Schmidt and Császár, the Hungária Mills and the Borsod−Miskolci concern were considered acceptable partners. Stux wanted to exchange the securities of the merging mills for the shares of the FBSM. Nevertheless, neither his plan nor the cartel plan of 120 provincial mills was realized in the end.[45]

Contemporary newspapers are not the only sources on the Stux project. He himself put his ideas concerning the big merger down on paper for the FBSM and its principal shareholder, the Hungarian Commercial Bank of Pest (*Pesti Magyar Kereskedelmi Bank*) twice in 1926.[46] In these memoranda Stux, stressed that

41 "Százhúsz malom 10 éves koncentrációra kész," *Pesti Tőzsde*, July 1, 1926, 5.

42 BFL XI. 1005. box 10, Társulás és üzemösszevonás szüksége a magyar malomiparban és annak módozatai. One can find the same 15 page-long type-written draft among the documents of the Commercial Bank. The author was in all probability Stux: Z40 Projektumok, 52. 949. Proj. 2009/1. Társulás és összevonás szüksége a magyar malomiparban és annak módozatai (without date).

43 Jeffrey Fear, "Cartels," in *The Oxford Handbook of Business History*, ed. Geoffrey Jones et al. (Oxford: Oxford University Press, 2010), Oxford Handbooks Online, accessed December 8, 2015, www.oxfordhandbooks.com.

44 "Lesz-e fúzió a malomiparban?," *Pesti Tőzsde*, December 15, 1927, 7.

45 "Százhúsz malom 10 éves koncentrációra kész," 5.

46 MNL OL Z40 Projektumok, 52, 949, 2009/1. Társulás és összevonás szüksége a magyar malomiparban és annak módozatai. Z40 Projektumok, 2009/2. 52, 949. Egyes magyarországi nagyobb malomcsoportok és nagyobb malmok egyesüléséről, 1926. január 18. The author's name is not mentioned in the texts, but it is clear from the contexts that it was Sándor Stux.

he did not consider cartel a good solution, and he deemed mergers necessary because of the high production costs. He urged radical cuts in costs and the rationalization of the plants and the staff. His merger plans met with strong resistance however; the owners of the plants sentenced to be shut down insisted vehemently on keeping their mills working, although their mills would have continued to operate with high production costs and losses. The negotiations again failed to produce meaningful results.

News on the merger appeared again in the press by the end of 1927. *Pesti Tőzsde* wrote about a merger of FBSM, Borsod–Miskolci Mill, and Első Békéscsaba Steam Mill, which belonged to the sphere of influence of the latter. Stux confirmed that there had been some consultations between himself and general manager Schrecker.[47] However, again they failed to resolve their differences. Borsod–Miskolci did not want to merge its profitable foreign mills. FBSM, on the other hand, was not inclined to the merger if this condition was not met.[48] Rumors about the establishment of a "new huge milling trust" gained ground in May 1928 once more. This time FBSM, Borsod–Miskolci, Gizella and all of Victoria's mills in Budapest and the rest of Hungary were to be amalgamated. According to the news, there were intense daily negotiations in Stux's office that had the support of the government.

> The new company is to take over all plants of the big Budapest mills in return for shares, and it will grind only in those mills where it is the most rational in order to guarantee the best utilization of capacities and lower flour prices. The absorbed companies would share in the profit in form of dividends. The new corporation would merge the provincial plants of the merged mills as well and thus control a significant part of the domestic milling industry.[49]

However, it became soon obvious that there were serious conflicts among the negotiating partners. One of them was that they were unable to agree on questions of leadership. FBSM reserved the leading role for itself, given that it owned more than 50 percent of the production capacities to be amalgamated. The others did not accept this and wanted to participate in the controlling positions, claiming that on the basis of assets their positions were not so ill-

47 "Lesz-e fúzió a malomiparban?," 7.

48 "Miért hiúsult meg az Első Budapesti Gőzmalom és a Borsod-Miskolci fúziója?." *Pesti Tőzsde*, December 22, 1927.

49 "Óriási malomtröszt alakul," *Pesti Tőzsde*, May 10, 1928, 7.

proportioned.[50] Personal issues proved to be the final impediment to the merger. Of the four heads of the milling firms, only one could have become general manager of the new company. In order to further thrift and rationalization, the number of high-ranking employees and other staff would have had to have been decreased by 75 percent at least as well. Another problem arose because the Hungária Mill was not inclined to join the talks, although the government insisted on this and made its support and the granting of various privileges conditional on the participation of all big flour mills in the merger.[51]

Accordingly, the huge milling trust was not created in 1928 either. The horizontal integration of the biggest companies of the branch failed to come about. The press reported on the complete cessation of negotiations as early as November. The big merger lost its actuality and expedience. Agricultural producers suffering from the grave consequences of grain overproduction on world markets also vehemently opposed the formation of a huge milling oligopoly, as they were afraid of a further decline in prices.[52] All this meant that none of the projects elaborated in order to reestablish inter firm cooperation was realized in the second half of the 1920s. The beginning of the Great Depression put an end to autonomous crisis management strategies from the 1930s on.

Individual Strategies – Building a Concern

Managers of the flour mill companies were presumably not astonished when they faced the difficulties of making a cartel since they had not managed to set up a permanent agreement before World War I either. The repeated failure of cooperative strategies therefore made it necessary for individual corporations to develop their own crisis management strategies as well in order to improve their positions. Consequently, as early as the turn of the century, the FBSM aimed to form its own flour milling group by acquiring several plants. This policy was justified in the management's report of the year 1903 by the cutthroat war of the flour mills and the failure to establish mechanisms for controlling inter-firm competition. There were no hostile take-overs, however, since the milling

50 "Nehezen születik meg az új malomholding," *Pesti Tőzsde*, May 24, 1928, 6.

51 "Malomholding helyett a régi malomkoncentráció feltámasztásáról tárgyalnak," *Pesti Tőzsde*, May 31, 1928, 6.

52 "Stux Sándor az Első Budapesti Gőzmalom vezérigazgatója a malomipar kilátásairól, a malomrészvények árcsökkenéséről, a koncentrációról, amely nem jöhet létre," *Pesti Tőzsde*, November 8, 1928, 5.

enterprises wanted themselves to join the FBSM, which accepted only the offers that were considered the most favorable. First, FBSM made a bargain with the shareholders of two well-reputed and long-standing companies, the Lujza Steam Mill (*Lujza Gőzmalom*) and the Pest Mill of Millers and Bakers (*Pesti Molnárok és Sütők Malma*) in 1903.[53] There was an uncompelled mutual exchange of shares by raising the share capitals of the participating companies. The management expected the deal to lead to an improvement in the company's competitiveness.[54] FBSM acquired share ownership in the Erzsébet Steam Mill in 1911.[55]

The building of the holding had accelerated during the years of World War I. FBSM obtained shares of many Budapest and provincial flour mills. It bought plants in Karcag, Mezőtúr and Gyoma in 1915 and formed the joint stock company Tisza-County Roller Mill and Warehouse Co. (*Tiszavidéki Hengermalom és Tárház Rt.*) out of them. It also got hold of other firms in Vác, Zombor, Galac and Pancsova.[56] In 1916, FBSM concluded an agreement with the owners of the Pest Roller Mill Company (*Pesti Hengermalom Társaság*) to exchange their securities for shares of the FBSM, four Roller Mill shares being equal to one share in First Budapest. Those who did not like the bargain could sell or even keep their Roller Mill shares. FBSM financed the extension of its sphere of interest by raising the share capital by one million crown, to 7.5 million crown. Thus, the daily grinding capacities of the whole group had increased to 2,670 tons.[57] In 1916, they acquired the majority ownership of the Zenta Roller Mill (*Zentai Hengermalom Heszler és Társai Rt.*) and bought a plant in Versec with a daily grinding capacity of 40 tons, to be enlarged later on. Out of the two latter mills the Southern Milling Industry Co. (*Délvidéki Malomipar Rt.*) was established. It was a new joint stock company with a 500,000-crown share capital. The business report of 1916 explained that the new acquisitions made possible the control

53 BFL XI.1005. box 5. Report of the board of directors on the business year 1903, minutes of the general assembly, February 15, 1904; Klement, "Vállalatok hálózatban," 91.

54 BFL XI.1005. box 5. Report of the board of directors on the business year 1903, minutes of the general assembly, February 15, 1904.

55 Klement, *Gőzmalmok a Duna partján*, 123; Klement, "Vállalatok hálózatban," 87–88. On these acquisitions see also the article of Judit Klement in this issue: Judit Klement, "How to Adapt to a Changing Market? The Budapest Flour Mill Companies at the Turn of the Nineteenth and Twentieth Centuries," *Hungarian Historical Review* 4, no. 4 (2015).

56 BFL XI.1005. box 5. Report of the board of directors on the business year 1915.

57 BFL XI.1005. box 5. General Assembly of the year 1915. I would like to thank Judit Klement for having put the minutes concerning the agreement with the Pest Roller Mill Co. at my disposal. See also: Klement, "Vállalatok hálózatban," 98–102; idem, "Apák és fiúk gazdasági stratégiái: egy magyar család a 19. és 20. században," *Aetas* 1–2 (2005): 69–92.

of the firms that had been bought up.[58] In 1917, a new flour mill, the First Székesfehérvár Steam Mill Co. (*Első Székesfehérvári Gőzmalmi Rt.*), was built.[59] The Károly Mill in Nagykikinda, which was bought up that autumn, was transformed into a joint stock company with one million-crown share capital, and its daily capacities were enlarged to 60 tons. The Tisza-County Roller Mill and Warehouse was completed with a mill in Szarvas and a storehouse in Dévaványa.[60] During the war years there were many new investments. Capacities were increased in the hopes of a better business atmosphere in the peacetime to come. A completely new plant was built on the site of the Erzsébet Mill, which was burnt down in 1914. According to the report of the management, it was furnished with the most up-to-date equipment and became one of the biggest mills on the continent.[61] The holding grew much more slowly in the inflationary period. The shares of the József Lowland Steam Mill and Sawmill Co. (*József Alföldi Gőzmalom és Fűrészmalom Rt.*) in Hódmezővásárhely and the Körös-County Industrial and Trade Company (*Körösvidéki Ipari és Áruforgalmi Rt.*) were obtained in 1922.[62] In the following year, Júlia Mill in Nyíregyháza got involved in the business group in order to get a satisfactory position in a significant rye-producing province.[63]

Although FBSM acquired several Budapest and provincial flour mills during the first decades of the twentieth century, these new acquisitions continued to operate separately, under their own former names and with their own accounts and profits. This meant that no effective merger was undertaken. Only grinding capacities were enlarged, but new, more effective organizational solutions to help further rationalization and economies of scale and scope were not implemented. An effort to get the biggest output quota in a future milling cartel might explain this policy of acquisitions by the FBSM. It would also add to the picture that many mills that joined the concern had belonged to the sphere of interest of the Pest Hungarian Commercial Bank (PMKB) before. The Bank had a majority share ownership in several of these flour mills. The Commercial Bank owned

58 BFL XI.1005. box 5. Report of the board of directors on the business year 1916.

59 BFL XI.1005. box 5. Report of the board of directors, the supervisory board and annual accounts of the business year 1917, March 27, 1918.

60 BFL XI.1005. box 5. Report of the board of directors on the business year 1918−1919, January 21, 1921.

61 BFL XI.1005. box 5. Report of the board of directors on the business year 1916.

62 BFL XI.1005. box 2. General assembly of the year 1922, June 18, 1923. Report of the board of directors.

63 BFL XI.1005. box 2. General assembly of the year 1923, June 23, 1924. Report of the board of directors.

nearly 100 percent of the Zombor, Vác, Pancsova and Zenta steam mills already in 1913. The Bank owned a significant share of the First Budapest Steam Mill as well. According to the data presented by Béla Tomka, it had nearly 30 percent of the shares in the end of 1913.[64] The bank might have obtained an even larger parcel of shares later on based on the number of securities that were deposited at the general assemblies held in the late 1920s and early 1930s (Table 2).

	1928	1929	1931
Number of shares deposited by the Hungarian Commercial Bank of Pest	75,000	95,000	65,568
Number of all deposited shares at the general assembly	85,205	10,4675	116,507
Shares deposited by the Hungarian Commercial Bank, in percent of all deposited shares	88.02%	90.76%	56.28%
Total number of FBSM shares	165,000	165,000	165,000
Shares deposited by the Hungarian Commercial Bank, as a percent of total number of FBSM shares	45.45%	57.58%	39.74%

Table 2: Shares deposited at the general assembly of the FBSM, 1928−1931
Source: BFL XI.1005. box 2. General assembly of 1927, February 24, 1928. General assembly of 1928, February 14, 1929; Minutes taken at the 63rd ordinary general assembly of the First Budapest Seam Mill Co. on February 21, 1931.

The Commercial Bank showed great interest in the flour mills. In 1913 the biggest part (27.2 percent) of the bank's industrial shareholdings belonged to the milling industry. Tomka has shown that this was not a result of a deliberate business policy, since the profitability of the flour milling industry was low by that time. Current share prices frequently remained below face value. The purpose of industrial shareholdings was often to obtain discount and deposit business, but illiquid companies could pay off their debts with their own shares as well, which might have remained in the portfolio of the creditor for years considering the low market value of these securities. The profitability of the smaller provincial flour mills was particularly low. They were frequently highly indebted with the bank; their debts were significantly higher than their share capital (Table 3).[65]

64 Béla Tomka, *Érdek és érdektelenség. A bank-ipar viszony a századforduló Magyarországán 1892−1913* (Debrecen: Multiplex Média–Debrecen U. P., 1999), 126–29, 179.
65 Ibid.

Flour Mills	Share holding of the bank (percent)	Share capital	Credits granted by the bank	Syndicate quota	Members on board of directors and supervisory board representing the bank (person)
		(1000 crowns)			
First Budapest Steam Mill	29.65	6500	-	-	2
Erzsébet Steam Mill	0.7	2700	1870.0	91.3	2
King Mill Hedrich and Strausz	33.9	4000	6530.5	-	1
Zombori Roller Mill	97	1000	2897.3	-	2
Vác Roller Mill	95.1	750	1287.2	-	2
Pancsova Steam Mill	100.0	400	1515.2	-	2
Zenta Roller Mill	-	600	903.2	-	2
Lujza Steam Mill	-	2800	-	-	1
István Steam Mill of Debrecen	-	5200	-	490.7	-
Gizella Steam Mill	-	3200	-	-	1
First Békéscsaba Steam Mill	-	2000	200.0	-	-

Table 3: The flour milling holding of the Hungarian Commercial Bank of Pest, 1913.
Source: Tomka, *Érdek és érdektelenség*, 179.

The Commercial Bank took an active part in building the milling group around the First Budapest Steam Mill, mediated the exchange of shares between the Lujza Mill and the FBSM, transformed the King Mill (*Királymalom*) into a joint stock company, and bought up several smaller provincial mills before World War I. The aim was probably to increase the efficiency of the companies. At least, calculations made in 1914 suggest this. The bank had estimated the economic efficiency of the big commercial mills in Budapest, taking into account their grinding capacities and financial positions, and guessed the effects of a possible merger on their productivity.[66] According to the calculation, the profit of the bank's milling group had only slightly exceeded the discount rate of the central bank (Table 4). According to Tomka, the profitability of other industries was significantly higher. In 1913, profitability in banking was 14.3, and in the iron and steel industry it was 18.4 percent (profit as a percentage of share capital).[67]

66 Ibid., Béla Tomka, "A magyar malomipar finanszírozása (1895–1913)," *Korall* 14 (2003): 79–97.
67 Ibid., 94.

Flour Mill	Average investment (1000 crowns)		Profitability (percent)	
	1912	1913	1912	1913
Pancsova Steam Mill	1378	1457	6.72	7.65
Vác Roller Mill	1291	1250	6.65	7.54
Zombor Roller Mill	2183	2536	6.76	7.74
Zenta Roller Mill	753	765	8.18	8.75
Discount rate of the Austro-Hungarian Bank	-	-	5.15	5.9

Table 4: Profitability of the flour milling holding of the Hungarian Commercial Bank of Pest, 1912–1913

The data contain the incomes from interests and commissions.

Source: MNL OL Z40 Projektumok, 52. item 984 Malmainknál való kihelyezéseink 1912. és 1913. évi jövedelmezősége [Profitability of our Investments in our Flour Mills in the Years 1912 and 1913]. Budapest, January 28, 1914.

Thus, the new members of the milling concern of the FBSM were not very lucrative and their financial positions were also not favorable. In spite of this, no direct measures were taken to reduce costs by concentrating grinding in the most effective plants or rationalizing production and administration until 1926. Managers viewing future business potentials as bright renewed the mills and enlarged grinding capacities during the period of post-war inflation. [68]

Chandler has pointed out that acquisitions alone did not ensure market dominance and cost reduction. Mergers increased organizational capabilities and productivity only if a single, centralized administrative control was quickly established over the merged or acquired companies and the facilities and personnel were then rationalized to exploit more fully the economies of scale and scope. But if the companies acquired or those coming into the merger were not administratively centralized and rationalized but instead continued to operate autonomously, much as they had before the change, the enlarged enterprise remained little more than a federation of firms. The resulting cost advantages were minimal.[69] These conclusions were drawn relatively late in Budapest. Only the grave milling crisis in 1925–1926 and the repeated failure of collective collusive policies forced the management of the FBSM to develop a new corporate strategy and fundamentally reorganize the company structure. By the springtime of 1926, it had been settled that the merger of the plants acquired earlier would be completed.

68 BFL XI.1005. box 5. General assembly of the year 1918–1919, January 21, 1921.

69 Chandler, *Scale and Scope*, 37, 71, 78, 229.

Merger and Rationalization

At the extraordinary general assembly of the FBSM held on April 22, 1926, the merger of three Budapest (Pest Roller Mill Company, Pest Steam Mill of Millers and Bakers, Erzsébet Steam Mill) and five mills outside the city (Vác Roller Mill, First Székesfehérvári Steam Mill, Tisza-County Roller Mill and Warehouse, Karcag, József Lowland Steam Mill and Sawmill, Hódmezővásárhely, Júlia Steam Mill, Nyíregyháza) was decided. From then on, the merged mills operated as plants of the First Budapest Steam Mill. The merger took place on the same day in the same board room of the FBSM in the case of all participating firms. New FBSM shares were emitted and exchanged against the securities of the fused companies and then these exchanged shares were destroyed. The majority of the newly issued shares ended up in the portfolio of the FBSM because it had owned the shares of the merged companies even before the merger (Table 5). The other shares to be exchanged were bought from their owners. Two plants were left out of the merger. Lujza Mill continued to function as a separate warehouse and the Körös-County Industrial and Trade Co. was maintained as an independent entity for various commercial transactions.[70]

	External shareholding	Shareholding of the FBSM	Total shares	FBSM ownership (%)
	pieces			
Luiza Steam Mill	49.000	61,201.000	61,250.000	99.920
Pest Mill of Millers and Bakers	238.040	31,261.960	31,500.000	99.240
Erzsébet Mill	129.330	47,120.670	47,250.000	99.730
Pest Roller Mill	509.864	55,490.136	56,000.000	99.089
Tisza-County Roller Mill and Warehouse Co.	0.000	393,750.000	393,750.000	100.000
Körös-County Industrial and Trade Co.	0.000	210,000.000	210,000.000	100.000
Vác Roller Mill	22,319.000	677,681.000	700,000.000	96.811
József Lowland Steam Mill and Sawmill Co.	252,100.000	797,900.000	1,050,000.000	75.990
First Székesfehérvár Steam Mill	0.000	1,050,000.000	1,050,000.000	100.000
Júlia Mill	112.000	1319.000	1431.000	92.173

Table 5: The flour milling group of the First Budapest Steam Mill before the merger of 1926
Source: BFL XI. 1005. Első Budapesti Gőzmalom Részvénytársaság, Okmánytár, Fúziókra vonatkozó iratok [FBSM, Record Office, Documents concerning fusions] box 73. 36.

70 BFL XI.1005. Record office, box 73. file 36. Preparatory documents concerning the fusion of 1926. BFL XI. 1005. box 2. General assembly of the year 1925, April 30, 1926.

In order to maximize savings, smaller plants which were deemed superfluous were closed down following the merger.

> We concentrated our plants in such a way that from among our Budapest mills only the most economical one on Pozsonyi Street was kept continuously in operation. We put in operation our best equipped roller mill only in the autumn months when it was most needed.

There were dismissals as well, both of workers and administrative staff.[71] The equipment and building sites of the factories that had been closed down were sold. The revenues increased available working capital, so the company did not have to borrow as much in these years. In spite of this, the index of external financing deteriorated in the second half of the 1920s (Diagram 2). The layoffs had not brought savings for years either, because severances and pension payments represented a large financial burden in the first years.[72]

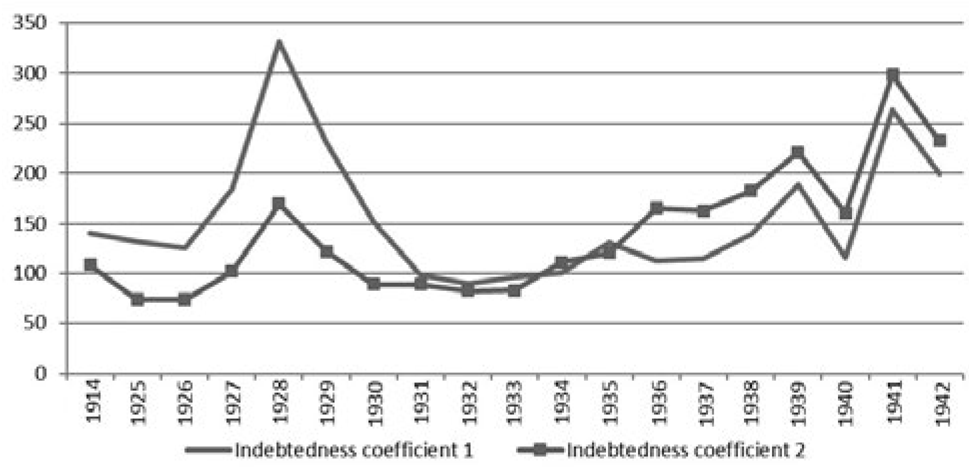

Diagram 2: Financial position of the First Budapest Steam Mill (1914−1942)
Indebtedness coefficient 1: Proportion of creditors to capital assets
Indebtedness coefficient 2: Proportion of external capital to own capital
External capital: Liabilities less own capital
Own capital: Share capital plus reserves
Creditors: Acceptances in circulation plus not redeemed dividend-warrants
Source: Balance sheets of the FBSM, 1914−1942. On the index numbers: Béla Tomka, "A magyar malomipar finanszírozása," 79–97.

71 BFL XI.1005. box 2. General assembly of the year 1926, May 23, 1927.

72 BFL XI.1005. box 2. General assembly of the year 1927, February 24, 1928.

Consequently, the merger did not bring about the expected results. The company's financial situation and competitiveness did not improve. Flour exports had diminished further, and revenues and profits kept declining. During the Great Depression, the market interventions of the government, such as the boletta system, the subsidies to domestic grain producers, the introduction of the foreign exchange control and the overvalued exchange rate of the pengő currency also damaged the competitiveness of the Hungarian flour mills abroad. The profitability of the company declined dramatically in the years following the merger. Except for the years 1927–1928, profits declined year by year. After 1932, there was hardly a year which did not bring losses (Diagram 3).

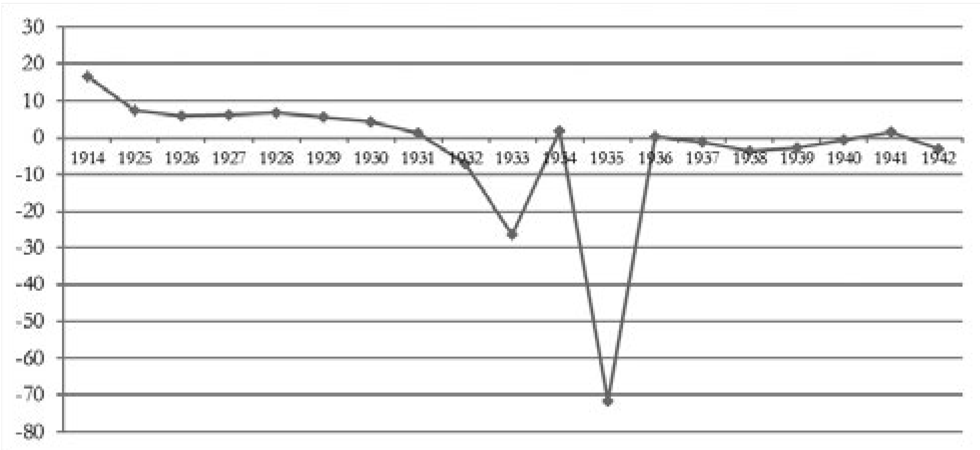

Diagram 3: Profitability of the First Budapest Steam Mill, 1914−1942 (percent)
Proportion of profits to share capital
Source: Balance sheets of the FBSM, 1914−1942

Reserves kept shrinking as well. As of late 1927, the shares prices quoted on the Budapest Stock Exchange declined steadily and never exceeded face value, by the end of 1930 they were worth only a third of their nominal value (Diagram 4). Therefore it was decided at the general assembly held on February 21, 1931 to reduce the share capital of the company by one third, from 8.4 million to 5.6 million pengős.[73]

73 BFL XI.1005. box 2. Ordinary general assembly of the year 1930, February 21, 1931.

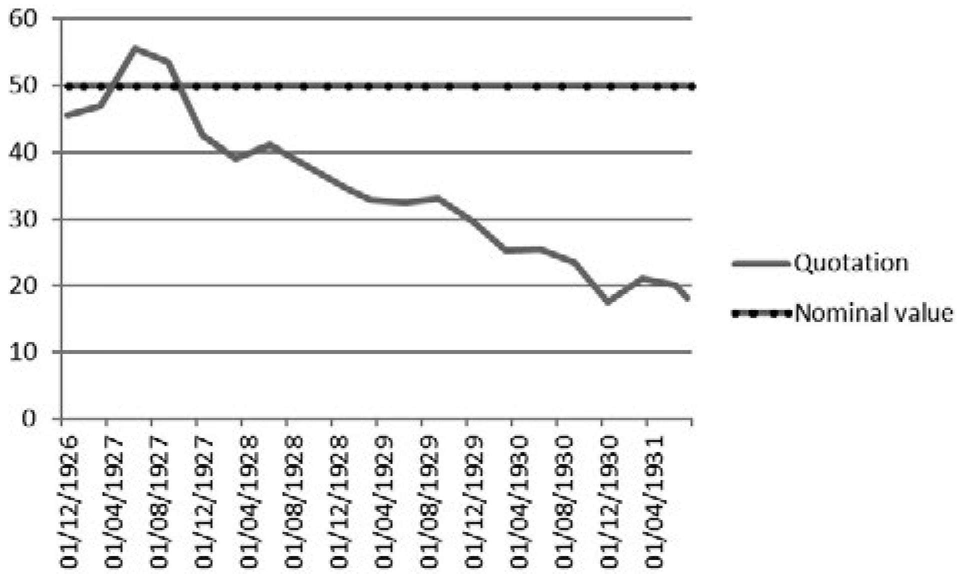

Diagram 4: Share prices of the First Budapest Steam Mill Co., 1926–1931 (pengő)
Source: Quotations, *Pesti Tőzsde,* 1926−1931.

The public balance for 1933 showed a loss of 1.5 million pengős and for 1935 4 million pengős, which was caused partly by the deficits of the current business year and partly by the writing-down of the value of the closed and demolished mills from the balance sheet. The serious losses and business recession forced the management to dismantle many flour mills and sell demolished materials and machinery. The real properties were sold as building plots after having been parceled out. The flour mill in Vác was also closed down, and dismissals and pensioning continued. Demolition of the Pest Steam Mill of Millers and Bakers on the Soroksári Street began in 1933.[74] The Lujza Steam Mill had also shown losses for many years. Incomes did not cover the expenditures, so Lujza was merged into the FBSM by January 1, 1936. FBSM took over the Lujza's warehouse business and the issue of the warehouse warrants, which was continued on the Óbuda site of the Erzsébet Mill. The buildings in Újlak, which had not been in operation for many years, was also demolished and the building parcels on

74 BFL XI.1005. box 61, letter of the Hungarian Minister of Commerce, 29.367/VI. a.sz./1933. May 15, 1933.

Kolosy Square and Lajos Street were sold.[75] This was followed in 1939 by the dismantling of the industrial and residential buildings of the Erzsébet Mill.[76]

Conclusions

On the basis of contemporary sources we can conclude that the big Budapest commercial mills had a fairly accurate assessment of their situation. They were well aware of the main causes of the serious crisis. They also knew the alternatives that could have alleviated their problems. In my paper, I showed that Hungarian flour mills developed various strategies to improve their competitiveness in the middle of the 1920s. First they attempted to create a looser form of cooperation; a plan of establishing a milling cartel involving a large number of flour mills was made. Then the concept of horizontal integration was tried by merging the biggest flour milling firms. Personal conflicts, inability to accept the compromises necessary for cooperation, and distrust hindered horizontal integration of the biggest players. Crisis management strategies also failed, possibly because there were too many firms in Hungary. It was nearly impossible to conclude an agreement due to conflicting interests of the many flour mills.

Although the FBSM, as the biggest company of the branch of industry, tried to play a leading role in transforming the Hungarian milling industry, it proved unable to assert leadership over others. As a consequence, neither project was implemented in the 1920s, which might explain why the domestic flour milling industry proved unable to overcome its problems and remained permanently a crisis-ridden branch, which gradually liquidated itself in the 1930s. In parallel with these attempts, some bigger companies formed concerns by drawing smaller flour mills into their spheres of influence in order to reduce price wars and competition and also to gain new markets. These mergers, however, did not lead to higher profits or better utilization of capacities, even when business administration got centralized and production processes rationalized.

75 MNL OL Pesti Magyar Kereskedelmi Bank Z 36. item 91. Industry Department, 113d/91. t. Lujza Steam Mill, minutes of the ordinary general assembly held in the boardroom of the First Budapest Steam Mill on May 12, 1936; BFL XI. 1005. Record Office, box 75, Documents on the merger of the Luiza Steam Mill into the First Budapest Steam Mill; BFL XI.1005. Record Office, box 75. Letter of the Luiza Steam Mill Company to the Royal Hungarian Tax Office of Budapest, IIIrd district, Budapest, March 19, 1936, BFL XI.1005. box 75. Letter of the Luiza Steam Mill Company to the mayor of Budapest capital town Dr. Károly Szendy, September 30, 1935.

76 BFL XI.1005. Technical documents, box 126, file 20. Papers concerning the demolition of the Erzsébet Steam Mill.

Acquisitions did not prove effective and did not lead to the restoration of former market positions. Insufficient product diversification and shrinking internal and exports markets might have contributed to the failure as well.

Finally, in the changing atmosphere of the 1930s, direct state intervention was applied in order to mitigate the crisis. Neither the failed cartels nor the mergers, nor even government assistance was enough to stabilize the financial positions of the branch, however, which led to the self-liquidation of the Hungarian flour milling industry. By the 1930s, flour mills which had once been the great pride of Hungarian industry were being shut down and dismantled.

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XI.1005 First Budapest Steam Mill Co.
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