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Precedents of the euro area?
Some thoughts on the Habsburg monarchy as monetary union

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A monetary union by fiscal divorce

- 1816 National-Bank receives monopoly for banknote issuance, monarchy with central budget
- 1867 Fiscal separation between (Imperial) Austria and (Royal) Hungary, but monetary space preserved
- 1878 National-Bank reorganized as bi-"national" bank
  - Centralized control of monetary policy, int rate, foreign exchange policy, conditions in lending operations (= discount)
  - Devolution of implementation to two head offices, assessment of discounters and bills, keeping of accounts
- Regular renegotiations of parts of the compact, notably tariffs and the bank

Habsburg and Euro area compared

- Common monetary policy, but separate budgets
- (Almost) no central budget
- Common monetary policy decided by board composed of representatives of member states
- Monetary policy decided centrally, but decentralized implementation
- But:
  - Habsburg compact renegotiated every 10 years, in the EU changes requires unanimity/qualified majority
  - Budapest and Vienna Directorates created in 1878, no historical legacy as in the case of national central banks in the ESCB

A contested union

- Habsburg monarchy known to have been rife with political conflict
  - *even though recent literature has emphasized the cohesive forces of Empire offering a framework for the development of individual nations*
- Conflicts between Austria and Hungary
  - Hungarian push for more independence and prestige
- Conflicts within Austria and Hungary
  - Different nations/groups pushing for increased participation, notably Slavs
- All reflected at the level of the joint central bank

Symbols and representation

- Parity between Austria and Hungary
- Czech representation
- Use of language on banknotes

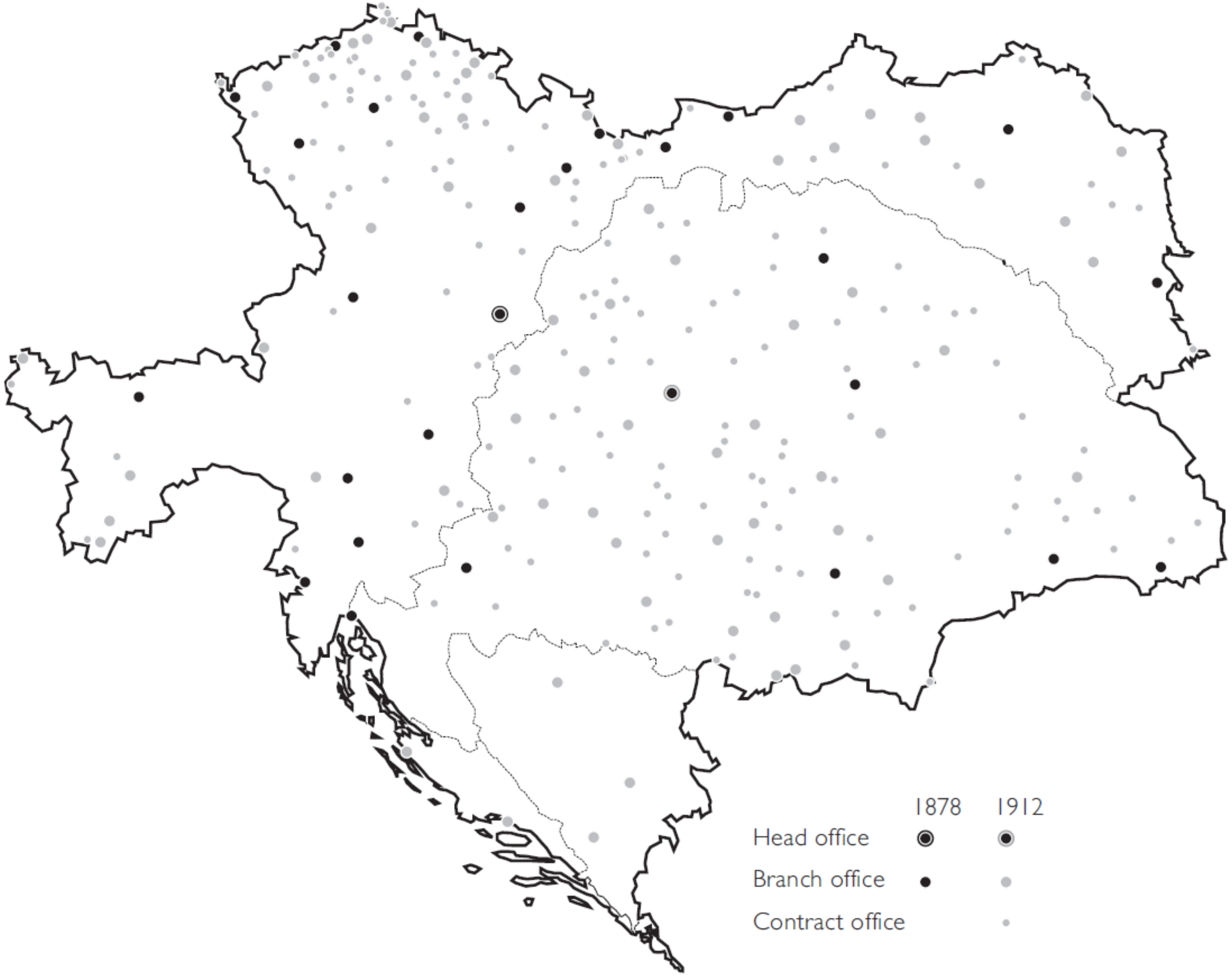
Conflicts

- accentuated by decennial renegotiation of monetary union
- mixed up with army, contributions to common budget, tariffs

Consensus on stability

- though drawn-out debates on whether better ensured by formal gold convertibility or by shadowing the gold standard through forex interventions

Decentralized implementation – OeUB branch network 1878–1912



Decentralized implementation

- Two head offices, about 100 branch offices in 1913
- Why?
  – providing access to small/local banks
  – access to local information
  – legitimacy
- Consequence: reporting by subunits makes regional distribution (more) visible that can be judged unfair by some
- Parallels here to EA

OeUB balance sheet

Assets	Liabilities
Gold, silver, foreign exchange	Capital and reserves
Bills discounted	Banknotes issued
Secured lending (lombard)	Current accounts
Gov‘t debt	Gov‘t accounts
Investment assets	

- Discounting and secured lending done by local branch offices reported by branch
- So are current accounts
- But no full balance sheets

Decomposing the Oesterreichisch-ungarische Bank

„Central office“

Assets	Liabilities
Gold, silver, foreign exchange	Capital and reserves
Gov‘t debt	Gov‘t accounts
Investment assets	

Local branches („NCBs)

Assets	Liabilities
Bills discounted	Banknotes issued minus withdrawn (can be negative)
Secured lending (lombard)	Current accounts

- Creation of money through lending and current accounts/banknote issuance need not to be equal (money moves freely)

K.u.k. TARGET

„Central office“

Assets	Liabilities
Gold, silver, foreign exchange	Capital and reserves
Gov‘t debt	Gov‘t accounts
Investment assets	Net balancing item („TARGET“)

Local branches („National central banks“)

Assets	Liabilities
Bills discounted	Banknotes issued minus withdrawn (can be negative)
Secured lending (lombard)	Current accounts
Net balancing item („TARGET“)	Net balancing item („TARGET“)

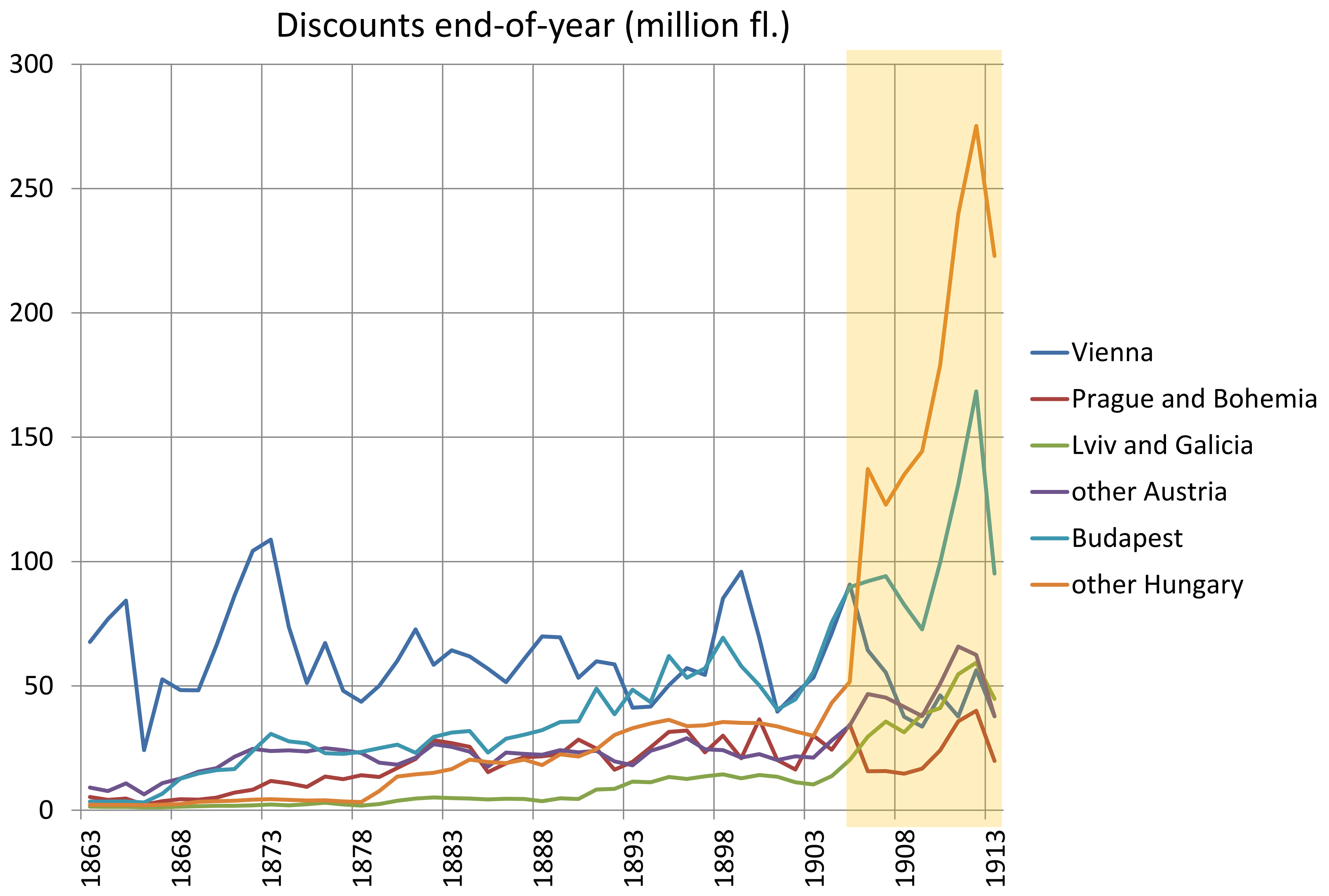
Public debate focuses on lending

- i.e. *creation* of central bank money, not its *consequent movement* within the monetary area, as in the TARGET debate
- Creation of branch offices important topic whenever Bank statutes are renewed (every 10y)
- Hungarian representatives demand and obtain fixed lending quota in 1878
- Debates in parliament quote figures from the Bank‘s annual reports

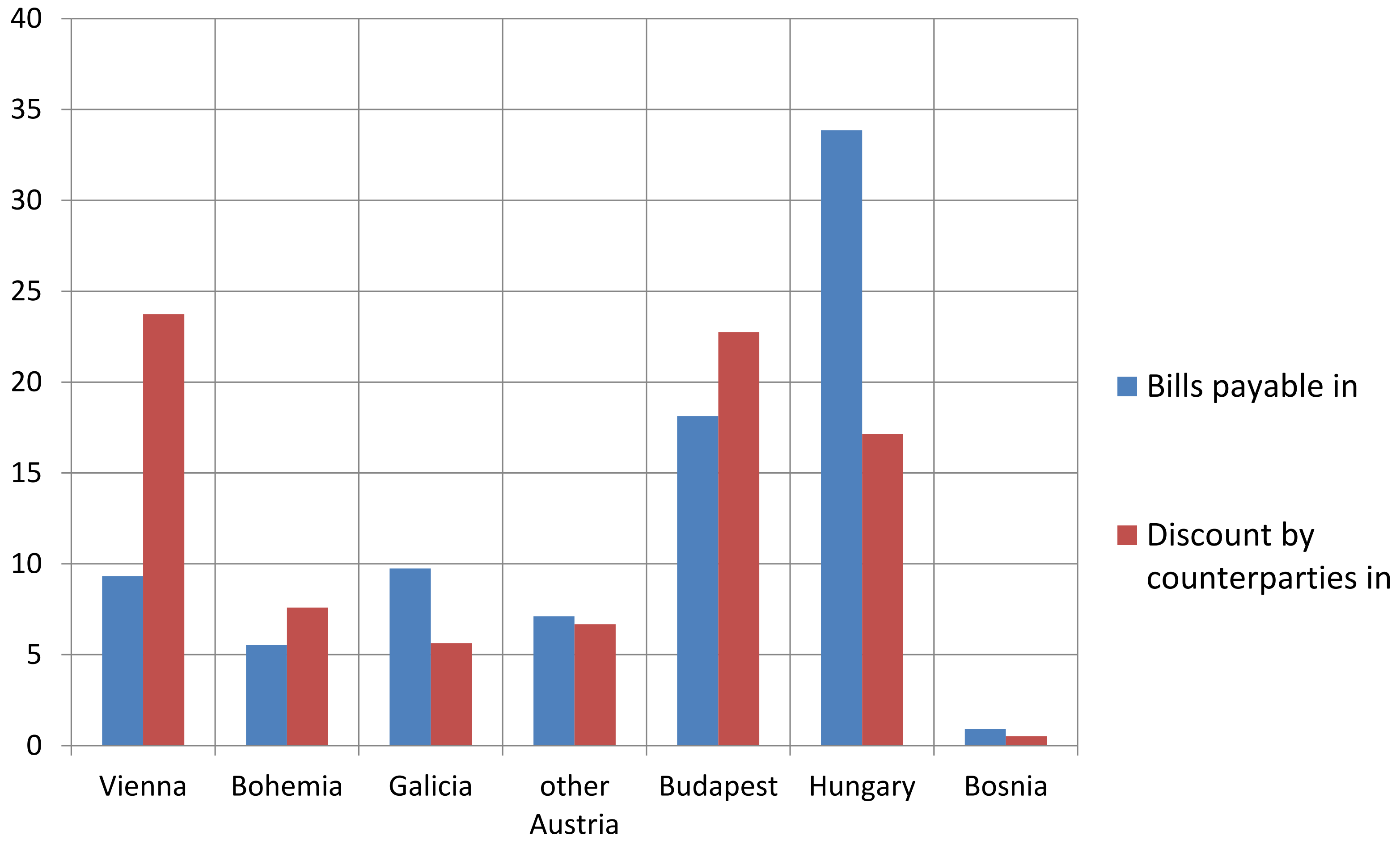
Challenge: Bank has only limited influence on distribution of lending

- Unlike asset purchases, lending through standing facility
- Bank sets conditions: eligible counterparties, eligible paper/collateral, interest rate
- But actual lending decided by commercial banks accessing discount/lending facilities
- Statutes require uniform criteria and single interest rate for entire monarchy
- Tender instead of standing facility, but otherwise similar setting in the EA

Giving in to Hungary‘s demands?



Another view at the same facts: discounting of bills vs. place of payment (1912)

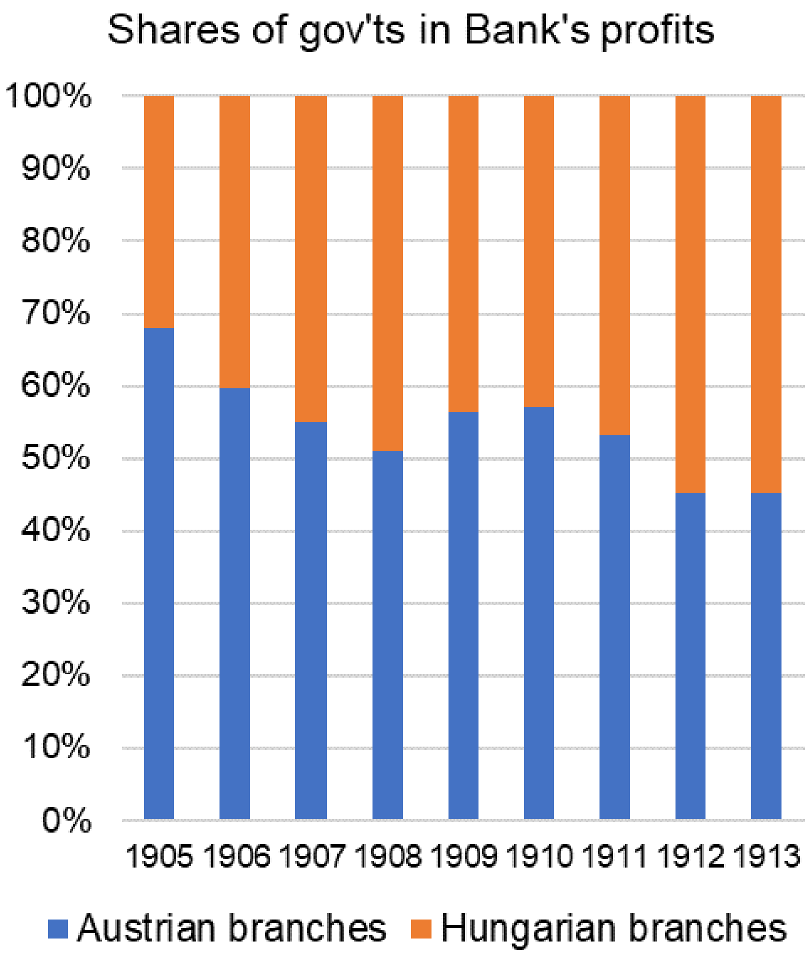


Cui bono?

- What is the proper way of reporting discounts and lending?
  - Advantage to *discounter*: Viennese banks, that discount bills in Hungary and rediscount them at the OeUB?
  - Advantage to *issuer*: Hungarian firms, that use bills to finance their business
- Does it matter whether money is created in Hungary or Austria?
  - No apparent subsidy in accessing central bank facility
  - Location might be linked to payment flows
- More research would be worthwhile

Seignorage

- Bank is private joint-stock company
- 19th century: gov’ts claim increasing share of profits
- 1878: 70% Austria, 30% Hungary, analogous to contribution of both states to financing of common expenditures (army, navy)
- after 1899: shares according to Bank’s sources of profit
- Rare example of having the pie and eating it



Conclusions

- How Austria-Hungary dealt with questions of distribution gives us possibly a perspective on current debates in the euro area
- Decentralized implementation (and reporting!) opens Pandora's box for internal conflict?
  - argument for centralization (Schollmeyer next session)
- Austria-Hungary as case, where conflict was open yet contained
  - Transparency on rules, practices and outcomes
  - *though seignorage-formula could have raised conflicts in the mid-term*
- *"The monarchy's best-functioning joint institution"* (Tibor Kállay, Hungarian Minister of Finance, 1918)