PROFILE: SÁNDOR POPOVICS (1862–1935)

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Sándor Popovics
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Statesman and financial policy maker Sándor Popovics was one of the most renowned and influential figures of his time. *József Radnóti* praised him with the following words in his work describing the life of several bank leaders and the domestic economic environment of the period:

> *"If I have faith in the divine mission and earthly commitment of men, it is because of Sándor Popovics. He was a most extraordinary man who, under the most adverse circumstances, created the National Bank of a defeated and mutilated country, forged a stable national currency, and as a result of his assiduous and successful work, now the Hungarian pengő and the National Bank of Hungary represent unshakeable solidity and unswerving trust both at home and abroad. […] Sometimes I find myself lifting my hat – unconsciously, as if under compulsion – when I pass by the building of the National Bank. On such occasions, it is him I am thinking of and my salutation is for him."* (Radnóti, 1930:79–80).

Popovics was born in Pest in 1862, to a family of public officers. After finishing his studies in law, he started his career at the Ministry of Finance in 1884 as a legal writer trainee. After fulfilling several different positions, he was appointed State Secretary to the Minister of Finance in 1903, an office which he held until 1909. His role in the stabilisation of the currency carried out during this period and his contribution to the drafting of the Currency Act are some of the highlights of his career. In the expert discussions and debates preceding currency stabilisation, Popovics steadily contested silver and bimetallic monetary standards and held that a stable currency may only be based on the gold standard (*Hegedüs,* 1940:9–19). Currency stabilisation has been an issue for decades, however, its implementation had not been successful for a long time. While a number of measures have been taken previously to restore the value of the currency, such as the regulation of the cover ratio, restriction of the amount of currency in circulation and a deflationary policy, these attempts at stabilisation were hindered, among others, by the Treaty of Vienna ending the Austro-Italian war in 1866, the temporary currency crisis (or the 'small crisis') of 1869, which caused disruptions also in payment transactions (*Juhász,* 1939:35–54), the consequences of the Vienna Stock Exchange Crash in 1873 and changes in silver and gold production which lead to a crisis of the entire European monetary system operating on the silver standard. By 1879, there was a significant difference between the value of gold and silver (1:18.2), compelling a number of European states to adopt the gold standard (*Kovács*, 2005:120). Currency stabilisation in the Monarchy finally took place in 1892 – the year when the first Hungarian central bank governor, namely former Vice-Governor *Gyula Kautz* took office – with the introduction of the golden *korona* (crown) as the basis of a new monetary system (actually effective as of 1900) that gained international recognition, reflected in the fact that the policy of the Austro-Hungarian Bank was a model for other countries; Germany even sent a commission to the central bank to learn (*Cs. Szabó*, 1935:5). Expensive imports due to insufficient domestic cereal production in 1909 drove up prices and led again to an increase in the number of banknotes in circulation, which continued steadily in the coming years as credit institutions developed their networks of branches and as a result of shrinking foreign capital markets in the aftermath of the panic of 1907 at the New York Stock Exchange, political uncertainty caused by the Balkan Wars of 1912–1913 and military preparations for World War I (Popovics, 1926:28–29). However, these could not undermine the success of currency stabilisation. Trust in the currency is shown by delayed recognition among the public of subsequently rising inflation, although it reached a considerable rate already in 1918, as 'cash ha[d] proliferated to such an extent that the consequences [were] highly unpredictable' (*Neubauer*, 1918:22).

As State Secretary to the Minister of Finance, Popovics participated in renegotiations of the commercial treaty between Austria and Hungary. The representative of Austria characterised Wekerle and Popovics as 'noble' and 'thorough' negotiators and described Austria's participation as follows: 'Our national and personal confidence, which we have never concealed, was tamed by a spirit of cosmopolitanism and our notorious cunning counterbalanced by recognition for objective reasons' (Cs. Szabó, 1935:6). Between 1906 and 1909, Popovics was a constitutionalist member of the Diet in Pozsony (now Bratislava) and from 1909 until the collapse of the Monarchy, Governor of the Austro-Hungarian Bank and a member of the upper house. Contemplating the economic circumstances of the country objectively, he addressed letters as Governor to the Austrian and Hungarian Ministers of Finance already in 1913, calling their attention to negative trends (*Pogány*, 1993:344), including the steadily growing number of banknotes in circulation – which in turn decreased the central bank's cover ratio from 71.9% to 45.1% between 1909 and 1912 – as well as to the withdrawal of savings deposits and the accumulation of precious metals (gold and silver coins), which were observable even though the level of military readiness was still relatively low. Popovics stated that financial stabilisation in the Monarchy would have come at a high price in any case, regardless of the state of military readiness of the time. Faced with the growing costs of World War I as Governor of the central bank, he put his personal convictions aside and supported the issue of additional banknotes and financing by the central bank. Seeing the negative trends, he assessed the situation already in 1914, when the funding needs of the war were not yet considerable, as follows:

> *"Standard credit operations were out of the question. Demand was constantly very high, while domestic saturation with payment instruments was far from the point at which public offering of the sovereign debt for underwriting could be considered. Seeking foreign assistance to cover the considerable needs of the military was not a viable option."* (Popovics, 1926:51)

Popovics regarded rising prices as a natural part of war and stood for more active involvement – even radical intervention – of the state in the economy, but only within certain limits.

> *"Rising prices during wars are inevitable. Recognising that states at war have an influence on production and on the abnormal development of prices caused by the different disruptions, has led to the establishment of organisations of economic emergency, central management of certain important consumables, export bans, import restrictions and price regulation at all warring parties. […] Going even further would have meant upsetting the entire economy."* (Popovics, 1926:131)

He identified the unfavourable economic state of the Monarchy as the reason for losing the war, arguing that it was apparent already in 1915 when the war still developed favourably for the Monarchy as the breakthrough at Gorlice and the stabilisation of the Italian front at Doberdo marked obvious military successes.

> *"[…] as regards Austria-Hungary, military successes could not compensate for the inferior*[1] *economic power of the Monarchy which has become manifest. The war, when it has fully developed and reached an unprecedented scale, proved to be a challenge that the Monarchy's economy could not meet."* (Popovics, 1926:135)

In the last moths of World War I, he was Minister of Finance in the third Wekerle cabinet and in 1920, he participated as a financial expert in the preparatory works of the peace talks in Neuilly, France as well as at the Brussels Conference convened to promote economic recovery in Europe after the war (Popovics, 1921:73). In 1920, in the absence of an independent Hungarian central bank, the Royal Hungarian State Bank was established to issue the national currency and Popovics, who played a major role in the creation of the institution, was elected its President. One year later, he took office as Executive Vice-President of the National Financial Council, set up to prevent further depreciation of the currency. He was the first Governor of the National Bank of Hungary, established in 1924. He continued in this office for more than a decade, until the last year of his life. According to

1 Note: 'modest', 'subordinate'

Popovics, the primary task of central banks at all times is to maintain and ensure the stability of the value of money, and as opposed to promoters of the positive effects of inflation, he expressed the following opinion, which is still valid today:

> *"They tend to forget, or do not understand, that causing inflation, whatever its purpose, destroys existing value and the extent of this destruction is greater than the contribution made this way to public goods. They ignore the fact that countries where inflation was stopped earliest were the first to recover..."* (Popovics, 1929:14)

He further expressed the view that stopping inflation is tantamount to preventing a social and economic catastrophe which everybody would like to avoid, who, based on a proper assessment of past experience, 'has a correct judgment of the present and vision of the future' (Hegedüs. 1940:13). Popovics considered that a sustainable and 'healthy' economic system should be based on gold, restored to its 'former privileges', an independent central bank organisation, appropriate coverage requirements and avoidance of state intervention into the institution of money. The following words offer a portrait of him as central bank governor:

> *"...he has piercing eyes, seeing, knowing and measuring everything and everyone; he was aware of everything and had his opinion about each and every thing and person. [...] Sándor Popovics recruited his colleagues to the management and the High Council with the greatest care; he is in supreme command of his own vast ship where everybody obeys his orders blindly."* (Radnóti, 1930:82–86)

A new currency stabilisation programme was carried out in 1924 from a British loan which was granted mainly due to the personal connections and widely-recognised expertise of Popovics. The *korona* was pegged to the British pound during the process of stabilisation which prevented a substantial increase in the volume of currency in circulation even in subsequent years (Varga 1929:36–37).

Popovics gave a commemorative speech on the work of Gyula Kautz at the meeting of the Hungarian Economic Association in 1930, a year after the 100th anniversary of Kautz's birthday. In his speech, he stressed the importance of familiarity with economic history in the profession of economics, since 'any attempt at living up to this task[2] must fail unless we extend our view to the observations that such retrospection offers and the lessons we may learn by recalling times past' (Popovics 1930:249). He gave lectures several times at seminars of the Hungarian Cobden Association, an institution advocating free trade, named after 19th century British economist and politician *Richard Cobden*, and having the primary objective of promoting closer ties between economic and cultural life. In his lectures, he emphasised the significance of keeping the value and purchasing power of the currency stable and warned against the dangers of inflation and loss of confidence in

2 Note: the task of practising the profession of economics

the currency. He proposed that a stable currency should not be subject to larger fluctuations in times of war than in times of peace, which he also regarded as a measure of its stability. Concerning the role of the state, he pointed at the importance of controlling the financial activities of the government and its subordinate bodies. As a proponent of the practical application of the principles of free trade, he put forward an economic and trade policy which went against the economic isolation of the country and promoted more active participation in international capital flows. However, he noted in respect of the passivity characterising Hungary's balance of payments at the time that foreign capital should be used only if the return on the investment funded from it is greater than borrowing costs. He also expressed his concerns about financial dependence caused by excessive external indebtedness and highlighted the need to intensify the generation of domestic capital (Hegedüs 1940:25–26 and Popovics 1929:16–25). In his lecture on the economic influence of different social organisations (e.g. advocacy groups, international chambers of commerce, the League of Nations), he recognised the role of these bodies, adding that they should have been created before World War I with a view to prevention, which would also preclude emerging perceptions that the sole purpose of these organisations was to preserve the new conditions established by the peace treaties. Popovics identified two risk factors in the operation of these organisations, namely insufficient or missing consideration for economic interrelationships (e.g. the role of market mechanisms) and excessive growth in their number and scope of activity (Popovics 1931:11–19). The Centre of Financial Institutions may be mentioned as an example for Popovics's latter concern. It started operation in 1916 as the first domestic integrated supervisory body but took on a growing number of additional tasks not related to supervision, or sometimes even to financial institutions (Varga, 2017:158). Unsurprisingly, general opinion came to be that the Centre of Financial Institutions had lost sight of its original purpose (Rassay, 1933:421). In this context, Popovics observed in general terms that '...we are also experiencing that social organisations do not stay within their original scope of operation but tend to extend beyond it into areas which they have no expertise in but which offer them further opportunities to represent themselves, and sometimes also popularity and greater power (Popovics, 1931:21–22). Popovics's proposal for cooperation between central banks (Botos 1999:83), to be implemented within a dedicated institutional framework, should also be mentioned:

> "*…when the stability of a currency of any country is undermined it shall be not limited to that country but will have a global effect through its economic and mainly social repercussions. […] Cooperation between central banks would serve as a common defence line against any such threat.*" (Popovics. 1929:27–28)

He gave the following account of the economic policy measures introduced during the economic crisis hitting Hungary in 1931 (e.g. bank holidays, exchange controls, moratorium on repayments of foreign loans):

> *"We had to make a hard decision. […] In those difficult times, the bank's policy had a threefold purpose, namely to preserve the stability of the value of the currency, to keep the internal credit system intact to the extent possible and to ensure that the most important foreign payments are made. Of these purposes, the protection of the pengő took priority."*[3]

The measures he introduced during the economic crisis and his appointment as Second President of the Hungarian Academy of Sciences between 1933 and 1934 mark the last important milestones in his professional life. He did not live to see the arms race and the preparation for World War II as well as the period of hyperinflation which were to follow. He died in Budapest in 1935. Upon his death, László Csekefalvi Szabó, then Secretary to the Chairman of the Banca Ungaro-Italiano and the Budapest Chamber of Commerce and Industry, said the following words of remembrance:

> *"He was one of the last public servants who lived the virtue of service, which is now in decline. […] He had a diversity of books, as all true readers have. Sensing his approaching death, he had his bed moved to the library. He died there, conversing with Persian poets, Latin moralists and Hungarian economists of old."* (Cs. Szabó 1935:7–8)

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