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One Bad Apple Spoils The Whole Bunch

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Abstract

The current literature is inconclusive on the relative importance of foreign and domestic factors in bringing about the Austrian financial crisis in 1931. This paper offers new data to bring further clarity to this issue and emphasises the importance of a domestic factor: universal banks' exposure to industrial enterprises. Industrial enterprises were the universal banks' main borrowers and creditors. During the 1920s they did not perform well, and made the universal banks insolvent. The Credit-Anstalt, which became an 'acquirer of last resort' for weak universal banks during the 1920s, may have avoided its own demise had it been spared of one bank's, the Unionbank's assets.

Keywords: Great Depression, banking crisis, Credit-Anstalt, 1931, Central Europe, Austria
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