

61st CONGRESS }
2d Session }

SENATE

{ DOCUMENT
No. 522 }

NATIONAL MONETARY COMMISSION

Evolution of Credit and Banks in France

From the Founding of the Bank of France
to the Present Time

BY

ANDRÉ LIESSE

PROFESSOR AT THE CONSERVATOIRE NATIONAL DES ARTS ET MÉTIERS
AND AT L'ÉCOLE DES SCIENCES POLITIQUES.—MEMBER OF THE
INSTITUT INTERNATIONAL DE STATISTIQUE, ETC.



Washington : Government Printing Office : 1909

TABLE OF CONTENTS.

	Page.
Preface: Purpose and arrangement of this study	5
PART I.	
THE BANK OF FRANCE AND THE DEVELOPMENT OF CREDIT, 1800 TO 1848.	
Introductory	7
Chapter I.—Founding of the Bank of France	16
II.—The charter or privilege of the Bank of France—Crisis of 1805	26
III.—The fundamental statutes of the Bank of France—It comes into closer relations with the State, 1806— 1814—Panic of 1814	32
IV.—The Bank under the Restoration—Founding of depart- mental banks	43
V.—The Bank under the Monarchy of July—Founding of comptoirs or branch offices, and the competition with departmental banks	47
VI.—The beginnings of the railroad industry—The panics of 1846, 1847, 1848—The departmental banks of issue are incorporated with the Bank of France, which becomes the sole bank of issue	54
VII.—A brief survey of the general course of business in the first half of the nineteenth century in France— Credit and industrial beginnings	66
PART II.	
THE BANK OF FRANCE—THE CRÉDIT MOBILIER—THE FIRST COMP- TOIR D'ESCOMPTE.	
Introductory	81
Chapter I.—The Bank of France, sole bank of issue—Its operations with the State—Founding of establishments called “Haute Banque”—Industrial loans and speculation	83
II.—The Société Générale du Crédit Mobilier and the Pereires, 1853—1866	96
III.—The first Comptoir d'Escompte and the development of commerce—The laws of May 23-29 and July 24, 1867, on companies	109
IV.—The Bank of France from 1860—1875:	
I. Before the Franco-Prussian war	125
II. The Franco-Prussian war and its results	137
III. The great loans and the payment of the war indemnity	150

NATIONAL MONETARY COMMISSION.

NELSON W. ALDRICH, Rhode Island *Chairman*.

EDWARD B. VREELAND, New York, *Vice-Chairman*.

JULIUS C. BURROWS, Michigan.	JESSE OVERSTREET, Indiana.
EUGENE HALE, Maine.	JOHN W. WEEKS, Massachusetts.
PHILANDER C. KNOX, Pennsylvania.	ROBERT W. BONYNGE, Colorado.
THEODORE E. BURTON, Ohio.	SYLVESTER C. SMITH, California.
JOHN W. DANIEL, Virginia.	LEMUEL P. PADGETT, Tennessee.
HENRY M. TELLER, Colorado.	GEORGE F. BURGESS, Texas.
HERNANDO D. MONEY, Mississippi.	ARSÈNE P. PUJO, Louisiana.
JOSEPH W. BAILEY, Texas.	ARTHUR B. SHELTON, <i>Secretary</i> .

A. PIATT ANDREW, *Special Assistant to Commission*.

National Monetary Commission

PART III.

FROM 1875 TO THE PRESENT TIME.

	Page.
Introductory.....	161
Chapter I.—The situation of France after the war—A glance at the development of saving and savings institutions.....	165
II.—The crises of 1882 and 1889—A brief outline of the operations of the Bank of France, 1875-1889—The Comptoir d'Escompte	170
III.—The crisis of 1890-91—Intervention of the Bank of France in behalf of the Bank of England.....	187
IV.—The credit companies and their development—Extension of their operations—Their general method—Their present situation.....	193
V.—The credit companies and the local banks.....	217
VI.—The Bank of France—Renewal of its privilege—Present situation—Its rôle in the crisis of 1906-7.....	224
General conclusions.....	235

APPENDICES.

I.—Note on the Crédit Foncier de France.....	241
II.—Note on the Crédit Agricole Mutuel	255

PREFACE.

The object of this study is to afford a connected view of the basic facts and most noticeable features of the credit system and banks in France from the year 1800 to the present time. It is designed, therefore, not as a history in which multiplicity of detail is apt to obscure a view of the subject as a whole, but as a coördinated outline of the successive stages in the development of credit and of the institutions which distribute it.

This outline is divided into three very unequal periods:

The first—a period of beginnings, of slow growth, of formation, during which the Bank of France succeeds in gaining a complete monopoly—extends from the foundation of that establishment until about 1848.

The second and shorter period is a time of transition. It extends from 1848 to about 1875. During these twenty-five years new institutions and new forms of credit associations make their appearance. Better laws facilitate the organization of these credit associations as well as of all kinds of associations, both industrial and commercial. It includes the war of 1870-71 and its immediate results. This event seems to have hastened the development of the credit system or at least to have given it a stimulus, arising from the consequent reaction against the misfortunes which had overwhelmed the country. France begins to recover and finds, in her sturdy

National Monetary Commission

spirit of economy and her ability to save, the elements productive of new vigor and potency.

The third period, which might be called the period of full maturity, extends from 1875 to the present time. In this interval the organization of the credit system is put on a firm footing as the result of a century's evolution.

In this evolution the various critical movements are described and explained—the political, economic, and financial crises—constituting, as it were, the pathological growth of the credit system and banks in France.

The study is supplemented by the addition of two appendices, of which the first portrays the development of the *Crédit Foncier* and its results, while the second outlines the rather recent organization of the *Crédit Agricole*; thus completing a series of observations, impartially set forth, and designed to assist specialists seeking the solutions of problems along these lines.

ANDRÉ LIESSE.

PARIS, *March 30, 1909.*

EVOLUTION OF CREDIT AND BANKS IN FRANCE FROM THE FOUND- ING OF THE BANK OF FRANCE TO THE PRESENT TIME.

PART I.

THE BANK OF FRANCE AND THE DEVELOPMENT OF CREDIT, 1800 TO 1848.

EVOLUTION AND DEVELOPMENT OF CREDIT AND CREDIT INSTITUTIONS IN FRANCE FROM THE YEAR 1800.

INTRODUCTORY.

Law's bank.—The bank compromised in certain undertakings.—Failure of Law's bank and "system."—The liberty of issuing bank notes in France from 1721 on.—The Caisse d'Escompte.—Dangerous relations of the Caisse d'Escompte with the State.—Its difficult situation.—Its liquidation.—Commercial banks during the Revolution.—Prudence of the commercial bankers.—Founding of free banks of issue, 1796-1800.—The Caisse des Comptes Courants, 1796.—Conditions of discount.—Its issues.—A difficulty overcome.—The Caisse d'Escompte Commercial, 1797.—Origin and nature of this establishment.—Capital.—Issue.—The Comptoir Commercial, 1800.—General Commercial Association of Rouen, 1798.—Services performed by these banks of issue during the last few years of the eighteenth century.

The son of a Scotch banker named Law succeeded in obtaining from the Regent on May 2, 1716, permission to organize a bank of issue. It was called the *Banque Générale*, and was opened the following month. If Law, the president of the bank, had kept within the normal bounds of operations of banks of this kind, it is probable that he would have rendered a real service to commerce and industry. Instead of this, he soon associated the bank with vast and uncertain

National Monetary Commission

enterprises aimed at the exploitation of the colonies; and presently the Banque Générale was brought into closer relations with the State, and on June 4, 1718, took the name of the *Banque Royale*. All the departments of private and public finance fell into Law's hands. The issue of bank notes by the bank and the issue of shares by the different companies that he founded soon became an abuse. Neither bank notes nor shares represented in reality any certain value. Stock-jobbing and wild speculation hastened the downfall of what was called Law's system. The Banque Royale closed its doors in 1721, and the various companies founded by Law were liquidated at great loss. It was a disaster which caused the ruin of a large number of people. The memory of this failure remained fresh in the minds of all classes of people, even the poorest, during the whole of the eighteenth century, and it was a long time before any one dared to found another bank of issue.

Although the monopoly which Law had obtained from the Regent in 1716, namely the exclusive right to issue bank notes, had been abolished in 1721 by an edict which gave the right of free issue.

Not until fifty-five years later did anyone try to organize a bank of issue; even then the establishment was not called a bank, so closely was the name associated with Law's failure. On March 24, 1776, when Turgot^a was Minister of Finance, Planchaud and Clouard, the first a Swiss, the second a Scotchman, founded a bank of issue

^a In 1767 an attempt was made to found a bank of issue to which the name of *Caisse d'Escompte* was already given, but as a matter of fact it did not go into operation.

Evolution of Credit and Banks

under the name of *Caisse d'Escompte*. This concern was chartered as a limited liability partnership (*sous forme de commandite*), and, after some difficulties at the start, succeeded in doing a moderately good business. However, it was not long before the Comptrollers of Finance, d'Ormesson first and afterwards Calonne, being short of money, borrowed from it. From this moment dates the first blow to the soundness of the credit of the Caisse d'Escompte. Except for these dangerous relations with the State, the Caisse d'Escompte engaged in a normal and regular banking business, including the issuance of bank notes. But repeated state loans and government interference in its management completely altered its character. Yet the directors were men of ability and worth; Lavoisier, the celebrated chemist, was one of them. The National Assembly, which had just convened, spent much time discussing the undertaking. Mirabeau was always unfriendly to it, while, on the other hand, Dupont de Nemours tried to defend the true principle of banks of issue, asserting that a bank without a privilege, not involved in business relations with a debt-ridden and needy State, without the prerogative of forced currency, can not do otherwise than pay in coin on demand the value of every note issued.

Soon the Caisse d'Escompte, as a result of closer and closer relations with the State, became nothing more than a branch of the public administration of finance, until, deprived of the resources it had been counting on, it appealed to the Government to take its affairs in hand and offered to give the Minister of Finance a statement of its assets and liabilities. Apart from the one error

National Monetary Commission

of forming an alliance with the Government, the Caisse d'Escompte had made every possible effort to protect the interests of its clients. For some time the State had been issuing assignats or paper money through the emergency bureau (*Caisse de l'Extraordinaire*). Issues of bank notes and assignats were in competition. The paroxysms of the Revolution completed the disorganization of the Caisse d'Escompte. Several of its administrators—Lavoisier, Vandernier, and others—mounted the scaffold, and lastly Cambon issued a decree suppressing the institution altogether. Its liquidation, begun in 1793, was not finished until the time of the First Empire. It is needless to add that the stockholders lost the greater part of their investment. The Caisse d'Escompte lasted seventeen years.

The cause of its downfall is to be sought in the abnormal political events which succeeded each other at that time. However, in all that concerns proper banking operations, the Caisse d'Escompte was wisely administered, and would have been of real service to commerce if it had not allowed itself to become the State's banker, lending money to the State without sufficient security, and receiving nothing in return but privileges which could not fail to be disastrous to it.

The revolutionary disturbances gradually subsided. A reaction set in, vigorous in proportion to the violence of the political and social upheaval which had gone before it. Although France emerged from this long ordeal exhausted and disorganized, business had not been utterly destroyed. The transactions necessary for the barest sub-

Evolution of Credit and Banks

sistence of the citizens gave employment to commerce and industry, and made some sort of credit necessary. Commercial banks, engaging only in discount operations, collections, and running accounts (*comptes courants*), had quietly and steadily kept on in spite of the Reign of Terror, the ordeal of the wars, and the dangerous and ruinous flood of assignats. Many of these banking houses were very old. That of the Mallets, which is still in existence, was founded in 1723. These bankers were, for the most part, Protestants whose families had taken refuge in Switzerland after the revocation of the edict of Nantes. Among them was Perrégaux, of Neufchâtel, who employed as a clerk Jacques Laffitte, and made him his successor; then too there was Vernes, who toward 1772 had in his employ Necker, afterward Minister of Finance. These bankers had learned the art of credit and the handling of capital in Switzerland, chiefly at Geneva, where banks had always been prosperous. They maintained the course of current business, and, as we shall see, were always extremely prudent, even in dealing with Napoleon. They did not allow themselves to be cajoled into granting the State favors of credit which would have cost them dear.

When order was reestablished and the State had ceased issuing worthless paper money, commercial banks undertook to found on discount the issue of bank notes. The first was the *Caisse des Comptes Courants*, established June 29, 1796, with headquarters in Paris at the Place des Victoires. The capital stock was moderate, amounting to 5,000,000 francs, divided into 1,000 shares of 5,000 francs each. This institution was the work of a great

National Monetary Commission

number of Paris bankers,^a who joined together in this way to make their collections, etc. The Caisse kept the funds of these individual banks, and, moreover, re-discounted their commercial paper. This bank was called "caisse," for, as we have said, the word bank, recalling that of Law, still terrified the public. This Caisse des Comptes Courants was therefore a bankers' bank. We shall see presently that the first regulations of the Bank of France were copied from it, and, in short, that the Caisse des Comptes Courants was transformed later into the Bank of France. It discounted commercial paper at a maximum time limit of ninety days, three indorsements being required.

The Caisse caused interest or discount rates to fall from 9 per cent to 6 per cent. It made handsome profits, which fact encouraged the setting up of other banks of the same kind. Its circulation, including bank notes in the coffers, amounted to 20,000,000 francs. The only notes issued were of denominations of 1,000 and 500 francs. It encountered no difficulties, except perhaps the following circumstance, which was, however, quite accidental: About seventeen months after its founding, in November, 1797, the bank was robbed of some 2,500,000 francs, which was rather a large sum for the Caisse des Comptes Courants. The news spread rapidly. Bearers of bank notes became alarmed and appeared in crowds at the doors. But the bankers who had founded the Caisse des Comptes Courants immediately united and declared themselves personally responsible for the liabilities of the Caisse. Although at that period the form known as a

^a Several of them had gained experience in administering the affairs of the Caisse d'Escompte.

Evolution of Credit and Banks

limited liability partnership (*commandite*) had not been established by law, it was already in existence. The stockholders of the Caisse showed on this occasion that they knew how to make a decision and assume responsibilities. The Caisse did an excellent business; its situation therefore was strong, and the panic proved momentary.

Another establishment was organized in 1797 shortly after the forming of the Caisse des Comptes Courants. This time the scheme was not promoted by bankers but by merchants, who wished to procure in this way facilities for their own business, rather than to seek profits directly from banking operations. The institution was called the *Caisse d'Escompte du Commerce*. The origin of the Caisse des Comptes Courants was sufficiently indicated by its name, and the entirely commercial character of the Caisse d'Escompte du Commerce is shown in the same way. This will explain the bitter resistance of the latter concern to being merged in the Bank of France, while on the other hand the Caisse des Comptes Courants joined forces with it willingly and at once. The Caisse du Commerce (as it was called for convenience) seems indeed to have yielded only to force. The Bank of France, in spite of all Napoleon could do, was destined to remain in reality a bankers' bank. Now, the interests of the Caisse du Commerce were entirely different.

The nominal capital of the Caisse du Commerce amounted to 24,000,000 francs, represented by 2,400 shares of 10,000 francs each. But the shareholders had not paid in more than a quarter of this sum—that is to say, 6,000,000 francs. Its board of directors was made up of merchants of all kinds, grocers, haberdashers, cloth merchants, silk

National Monetary Commission

merchants, etc. The undertaking was successful. Its issue never exceeded 20,000,000 francs.

It may be well to mention another bank, founded at this time, as a result of the success of the two establishments whose origins and workings we have just described briefly. It was called the *Comptoir Commercial*, and was founded in 1800. It was usually known as the *Caisse Jabach*. In comparison with the others this bank had one interesting peculiarity: In addition to notes of the denominations of 1,000 and 500 francs, it issued notes for 250 francs. The Caisse Jabach carried on a discounting business, the only one, of course, which justifies the issue of bank notes redeemable at sight.

Lastly must be mentioned the founding at Rouen in April, 1798, of a bank of issue, which also made discounts. It took securities with two names, with a maximum maturity of one hundred and eighty days. It is seen that in the matter of maturities it departed from the custom of the Caisse des Comptes Courants, which took paper of not over ninety days, or just half as long. This bank issued notes of the denominations of 1,000, 500, 250 and 100 francs. No note as small as 100 francs was issued by any Paris bank. It is not probable that this house did a large business, or that it had deposits of any great amount with which to make discounts (as a matter of fact it allowed interest to its time depositors), for the issue did not go beyond the very moderate sum of 200,000 francs.

It can not be denied that after the terrible years of the Revolution, in the midst of the confusion and anarchy of the Directory, these credit establishments, in spite of difficult conditions, survived, maintained their credit, and

Evolution of Credit and Banks

were of real service to the commerce and bankers of Paris. They gave not the slightest occasion for complaint or interference on the part of the public authorities. Without any sort of privilege, having no connection with the Government, they were able to meet their obligations even in the midst of serious panics.

How does it happen, then, that this most satisfactory state of freedom came to an end and that in the course of a few years there was organized in Paris a bank with the exclusive privilege of issue? Is it due to a series of natural causes? No. Not one of the Caisses just described had occasioned disaster or invited suppression. The new state of things came from the idea of credit which existed in the mind of General Bonaparte, as well as from his tendency to centralize everything, and because the Government at that moment was in great need of money. By following logically the development of the facts we shall see that the prime motive was the all-powerful will of Napoleon.

It was necessary to make these few introductory remarks in order to show the conditions which existed at the time of the founding of the Bank of France—a bank which was to possess later the sole right of issue for the whole of France, influencing at the same time the general organization of the credit system of that country. It is at the present moment the center and pivot of the system. And yet, it is not through the Bank of France, through its own action, but independently of it—making of course due allowance for the rôle that circumstances have bestowed upon it—that this evolution of credit institutions has taken place.

CHAPTER I.—*The founding of the Bank of France.*

Reasons for founding the Bank of France.—Napoleon wanted a bank of his own.—Preparation for founding the Bank.—Capital of the Bank of France.—Its transactions.—Its organization.—Difficulties in the way of raising the Bank's capital of 30,000,000 francs.—The intervention of the sinking fund.—The Bank's first resources.—Delay in disposing of the first shares.—The first subscribers.—The assistance of the National Lottery.—First charges of the Bank.—Obligatory relations between the Bank and the State.—The bank notes of the Caisse des Comptes Courants.—The first operations of the Bank.—Tendency toward a single bank of issue.—The First Consul's schemes of centralization.—First conference with the Caisse d'Escompte du Commerce.—Resistance of the Caisse d'Escompte du Commerce.—Manoeuvres against the Caisse d'Escompte.—The final agreement with the Caisse d'Escompte.

At the time when the foundations of the Bank of France were laid, as well as during the whole period of the Empire, the press and writers in general had so little freedom that it is impossible to obtain, either through books or other authentic documents, trustworthy details or exact information concerning the circumstances which led to the creation of the Bank.

Baron Pelet (de la Lozère), who was admitted when a very young man to Napoleon's Council of State, published in 1833^a the notes he had collected while he was a member of that great body. He tells us on the subject of the founding of the Bank of France (p. 248): "The rate of interest on money was then 3 per cent a month. It was determined to lower this rate, and especially to have an establishment which would take the government's paper and help its operations." This means that the credit concerns were not willing to take government paper or the drafts of the government contractors, because they

^a*Opinions de Napoléon sur divers sujets de Politique et d'administration recueillies par un membre de son Conseil d'Etat.* Paris, 1833.

lacked confidence in the Government. Further proof of this fact is given by the same author (p. 249, same volume). Here he sets forth the difficulties which arose in 1804 between Napoleon and the Bank of France. "He (the Emperor) in the year 1804 bitterly reproached a deputation from the Bank because there was, right in its midst, an opposition party which kept the obligations of the collectors-general from being discounted and also refused to give commerce the necessary accommodations. The truth of the matter is that the Bank already held government obligations to the amount of 25,000,000 or 30,000,000 francs, and that the alleged commercial effects which it had refused were those of Hervas, Michel, and other contractors, whose paper was nothing more nor less than government paper. The Bank had in circulation bills for 75,000,000 francs, and must of necessity be prepared to honor them on demand. Napoleon wanted the Bank to increase the issue to 100,000,000 or 150,000,000, at the risk of not being able to satisfy the bearers."

All the facts so far as known tend to prove that First Consul Bonaparte took the initial steps toward founding the Bank of France. He could not get what he wanted from the free banks. On the other hand, he felt that the Treasury needed money, and wanted to have under his hand an establishment which he could compel to meet his wishes. It appears indeed from this extract from the notes of Baron Pelet that nearly three years after the founding of the Bank, Napoleon, then Emperor and undisputed master of France, did not hesitate to speak sharply to the directors of the

National Monetary Commission

Bank, who were little inclined to discount the paper of the government contractors.

It is very likely that he broached the subject more in particular to certain bankers who were near him, especially Perrégaux, who had come from Neuchâtel several years before the Revolution and founded at Paris a very prosperous banking house. The directors of the Caisse des Comptes Courants, among whom was Perrégaux, were probably notified, for they came together and drew up the plan of a new establishment which was to take over the Caisse des Comptes Courants.

It would certainly seem that here originated the idea of creating a new bank of issue. However, public opinion, as represented by merchants and citizens of all classes, was brought into play. A certain number of these men met and prepared a petition addressed to the Directory, in which the signers requested the formation of a new credit institution. This occurred toward the end of 1799 and the first days of January, 1800.

Previous to this manifestation the first plan of the general statutes of the projected bank had been submitted to the Minister of Finance. On January 6, 1800, the regents, but recently elected, MM. Lecoulteux-Canteleu, Mallet, Perrégaux, Nautort, Perrier, and Perré, went to the Minister of Finance and laid before him "the principal features of the protection" which they asked of the Government.

The plan was to create a bank of discount, circulation, and issue with a capital of 30,000,000 francs. The figure was large for the time. How was this capital to be

Evolution of Credit and Banks

raised? This difficulty had been foreseen. To solve it they had prepared to merge the Caisse des Comptes Courants and the new bank, which was to be called the Bank of France. On January 18, 1800, the general assembly of the stockholders of the Caisse des Comptes Courants voted to dissolve this company and enter the new combination.

The capital stock was fixed at 30,000,000 francs and divided into 30,000 personal shares of 1,000 francs each. The Bank of France, according to its first statutes, was to engage in the following transactions: Discounts, collections, running accounts, the issue of notes payable to bearer on demand, and commerce in gold and silver bullion. It was also to open a sort of savings department called the savings and investment bureau, allowing interest to depositors. But for some reason this department was little patronized, and was abolished in 1808. At first it paid 5 per cent on deposits; later 4 per cent.

A regents' council of 15 members was to administer the affairs of the Bank of France; its direct management was entrusted to a committee of three regents, and its supervision was committed to a council of three censors. A general assembly consisting of the 200 largest stockholders represented the whole body of stockholders. Five shares were enough to give the holder a vote, and he had as many votes as he had multiples of five shares, not exceeding a maximum of four.

The very day on which the Caisse des Comptes Courants was dissolved, a decree of the consuls authorized the

National Monetary Commission

Minister of Finance to lease for the Bank the state building known as the "Oratory," and "the former church which makes a part of it." And there the Bank was installed, in property belonging to the State, which showed already what close relations existed between the new establishment and the Government.

All this was effected without obstacles. Not so the getting together of the capital of the Bank. The great difficulties which were encountered here are officially stated in the report laid before the stockholders of the Bank on October 17, 1800. Here is the passage:

"The regents who were in charge of the Bank being convinced, owing to the scattered state of capital, that it would be useless to expect that the 30,000,000 francs which were to serve as banking capital would be subscribed promptly, simply by calling together stockholders, their first care was to call to the attention of the Government the protection and cooperation necessary to insure the success of the proposed establishment.

"The very day of their election, the directors addressed a petition to the Minister of Finance requesting him to obtain from the consuls the permission to deposit in the Bank of France the funds accruing from the bonds furnished by the collectors-general of the departments, and destined by the law of the sixth Frimaire preceding to the paying off of the public debt, and also to guarantee the payments of these same collectors-general. An order of July 18, 1800, granted the request, and 5,000,000 francs were deposited in the Bank in return for 5,000 shares registered to the credit of the sinking fund.

Evolution of Credit and Banks

"The Bank having got its first start through this fund could now commence operations in competition with the Caisse des Comptes Courants, which was then doing business; but for fear of disturbing the money market by this division of resources, the regents determined to make every effort to unite the two establishments whose competition might prove dangerous."

Even in this official report, which was intended to disguise some of the difficulties encountered in raising the capital stock of the Bank, it is perfectly clear through the very testimony of the founders that this establishment got its first start by official order, from the sinking fund of the state debt. That amount, however, made only one-sixth of the capital. Subscribers for shares had not appeared in great numbers. During the first year (1800) only 7,447 shares^a were taken, and this only after uniting with the Caisse des Comptes Courants. Among the earliest subscribers are found the following: First Consul Bonaparte, his brother Joseph Bonaparte, J. Murat, Hortense Beauharnais, then aides-de-camp such as Duroc and Lemarois, and finally, Senator Siéyès and several other members of Napoleon's immediate circle, including Barbé-Marbois, Crétet, Cambacérès, etc.

In the early part of March, 1800, a new decree of the consuls directed that the reserve fund of the national lot-

^a Only 7,590 shares received the dividend at the end of the second half year of 1800; 12,348 shares received the dividend of the first half of 1801; 14,705 that of the second half of the same year. It was only for the fiscal year 1802 that the number 30,000 was reached, and even then because a subscription took place in October and November, 1801. It was on this occasion that the shares of the Bank commenced to be quoted on the Paris Bourse (October 27, 1801).

National Monetary Commission

tery should be deposited at the Bank. Little by little they succeeded in this way in disposing of 15,000 out of the 30,000 shares—that is, half of the capital stock stipulated in the statutes.

The Government had been in reality the first subscriber, through the agency of the sinking fund, but it had made the condition that in return for this first cooperation the unpaid obligations of the collectors-general should be met in full by the Bank of France to the amount not only of the sums standing to the credit of the sinking fund (which had deposited at the Bank funds proceeding from the bonds furnished by the collectors-general) but also an amount equivalent to the total of the shares bought by the Government, which, as we know, amounted to 5,000,000 francs.

So the State gave with one hand and took away with the other. Having been placed at the very beginning under the protection of the Government, the Bank was forced little by little to tighten the bonds from which it could no longer escape. Although Perrégaux, president of the Bank, declared in his report of October 17, 1800, that the Bank “negotiates with the Government only when it finds it advantageous to do so and receives all its usual securities,” the new institution of issue was not as free as Perrégaux declared, as was proved by the sequel. At any rate, the State had sold without scruple the greater part of its shares. In 1801–2 (in the year X), of the 5,000 shares that the sinking fund had bought in the beginning, all but 500 had been sold.

It was with the bank notes of the Caisse des Comptes Courants that the Bank of France began operations. At

Evolution of Credit and Banks

the time it was incorporated with the Bank of France this establishment brought the following resources:

	Francs.
Specie.....	5,000,000
Commercial paper.....	6,000,000

It had in addition, either in circulation or in its coffers, 20,780,327 francs in bank notes. It brought also a very substantial credit, and the technical experience of its administrators. So the notes of the Caisse des Comptes Courants became the first fiduciary money of the Bank.

It was in 1808 that the notes of the Caisse des Comptes Courants disappeared entirely from circulation. They were probably withdrawn in 1807.

In the first year's activity (1801, year IX) the Bank discounted commercial paper to the amount of about 89,000,000 francs. The following year its discounts doubled, reaching in round numbers 180,000,000 francs, while its circulation during the second year amounted to 30,000,000 francs.

Besides the Bank of France, several other banks of issue which we have mentioned above were still in operation. The most important among them was the Caisse d'Escompte du Commerce. The idea of the First Consul from the start was to make of the new concern an institution which he could have under his control. This appears in the very beginning, when a deputation from the bank council, accompanied by M. Crétet, Councillor of State, who had an important share in these events, asked him for government protection. Not being familiar with financial questions, and especially with questions of banking and credit, he simply applied to this matter his ideas of centralization. It may be surmised from the opinions

National Monetary Commission

he expressed afterwards in public that he was already turning over in his mind the plan for a single bank of issue, with a view of using it to further his projects and ambition.

To attain this end the first method tried was diplomacy. Negotiations were opened in April, 1802, to induce the Caisse d'Escompte du Commerce to carry out of its own accord its fusion with the Bank. They were from the start exceedingly difficult. The Caisse d'Escompte refused to be merged in the Bank. When the directors were assured that in the matter of the issue of bank notes the unity of the issuing establishment was a necessity and an advantage to the public, they answered, on May 14, 1802, "that the Caisse d'Escompte with 6,000,000 francs of capital issued bank notes to the value of 20,000,000 francs, while the Bank with a capital of 30,000,000 francs had a circulation of only 30,000,000 francs." The argument was good, for the aim of issuing bank notes is to keep in circulation, in the form of bank notes payable to the bearer on demand, paper money with a real value, easy to handle and representing commercial paper which is held until maturity in the safe of the bank which makes the issue. The capital is there only to make good the non-payment of commercial paper on maturity. Now, discount intelligently handled ought to suffer only small losses; a reserve of specie in the coffers should suffice to cover these losses and redeem the bank notes which have been issued on the basis of unpaid effects. Credit by issue does not mean circulation in the form of paper money of specie, but of short-dated commercial bills.

The Caisse d'Escompte was slow in being persuaded, and held out for a long time. What happened finally has never been cleared up. The press, as we have said, was

Evolution of Credit and Banks

not free, and there is no trace of the methods (probably despotic) which were resorted to at the moment to convert the administrators of the Caisse d'Escompte. An English newspaper, the *London Courier*, which published letters from France, received one dated October 9, 1802, in which it was said that the State had applied several times to the Caisse d'Escompte to discount its obligations and had been refused. Then, as it was alleged, a well-known expedient had been resorted to—that of collecting a great quantity of bank notes of the Caisse d'Escompte and presenting them all at once one fine morning for redemption. The establishment paid them. The Caisse went through the same ordeal a second time and held out successfully against the Government. At last, still according to this English correspondence, the Government, being weary of the struggle, sent an armed force to close the offices of the Caisse d'Escompte.

But, let it be repeated, there is in existence no authentic document proving these facts. However, even if they are not to be considered as certain, it is possible to assert that the directors of the Caisse d'Escompte du Commerce consented to unite with the Bank only because they saw that further resistance would be useless. The final agreement with the Bank was not signed until August 25, 1803, more than four months after the Bank of France had been invested with the exclusive privilege of issuing bank notes in Paris.

Naturally, the Factorerie and the Comptoir Commercial and the Comptoir Jabach disappeared likewise, or at least were incorporated with the Bank.

CHAPTER II.—*The charter or privilege of the Bank of France.*

The Bank of France is given the exclusive right to issue bank notes in Paris.—The law of April 14, 1803, 24 Germinal, Year XI.—Duration of the privilege.—Increase of capital.—The right to discounts extended.—Fixing the dividends.—Personnel of the regents' council.—The real situation.—The balance was not maintained between the circulation and the convertible resources.—The crisis of 1805.—The Emperor's departure for Germany. Rumors that were circulated.—Reduction of amount of discounts.—Limiting the redemption of notes.—Normal appeal to the provincial banks.—The mistakes that had been made.—The bad effect of relations between the State and the Bank.

From the facts that have just been stated it will not be difficult to foresee their only possible outcome. It is obvious that the Bank of France was destined to receive the sole right of issue. And what is more, this was nothing but a stopping place on the way to the final goal, namely, handing over the establishment to the head of the State.

Although the event was planned beforehand, a slight panic which made itself felt in the course of 1802 (the year XI) was seized upon as a pretext for carrying out the idea of a single bank of issue. The pretext was a sufficiently flimsy one, for the banks of issue, including the Caisse d'Escompte du Commerce, had given no occasion for complaint.

It was the law of April 14, 1803, which radically changed the statutes of the Bank. As the president of the stockholders said in his report of the year XII (1804), it was not so much a commercial as it was a political law. Its underlying provisions were as follows: The Bank of France was henceforth to have the exclusive privilege of issuing bank notes. The Caisse d'Escompte du Com-

merce, the Factorerie, and other companies which issued notes in Paris, ceased to have the right to issue new ones from the date of publication of the law of Germinal. They were to withdraw all notes from circulation within the very short period of six months or thereabouts. No bank could be organized in the provinces without the consent of the Government. The Government reserved the right to grant the privilege of issue, and to fix the maximum of notes issued, declaring at the same time that these notes could not be manufactured elsewhere than at Paris. The privilege was to last fifteen years, from the first Vendémiaire, year XII (September 24, 1803). The capital of the Bank was raised to 45,000,000 francs by creating 15,000 new shares. The smallest denomination for Bank of France notes was to be 500 francs, and 250 francs for any departmental banks that might be founded. In the statutes of the year VIII, the shareholders alone had special rights to discount; in future, they were no longer to enjoy this privilege; every merchant, manufacturer, banker, etc., on satisfying the general requirements, could be admitted to discount his paper at this establishment. The annual dividend was fixed at 6 per cent, not including the income on the surplus capital invested in government stock, which could be distributed in addition to the 6 per cent. Seven regents out of fifteen and the three censors were to be chosen from the manufacturers, mill owners, or tradesmen who were shareholders in the Bank. Every member of the company could have but one vote, whatever the number of shares he held.

National Monetary Commission

Let us note at this point that the capital stock was raised from 30,000,000 to 45,000,000 francs without the slightest commercial necessity.

To all appearances, from the year VIII to the year XII, the Bank had increased in rather large proportions its "portfolio" of commercial paper—in other words, its discounts. Here are the comparative figures (maximum and minimum) relative to the reserve, the commercial discounts, and the circulation of bank notes for the years VIII and XII:

[Million francs.]

	Reserve.		Commercial discounts.		Circulation.	
	Maximum.	Minimum.	Maximum.	Minimum.	Maximum.	Minimum.
Year VIII, second half year (1800)-----	11	6	21	5	23	9
Year XII (1803-4)-----	25	5	76	53	70	54

Average rate of interest, 6 per cent.

But, according to the opinion of Mollien, who was not unfriendly to the Bank of France, there was in what was called the commercial "portfolio" only a very small per cent of real commercial values. These large figures were mostly made up of government paper or that of the contractors.

In reality, they were not liquid values, capable of being realized in specie quickly or on short notice, making it possible to redeem bank notes without running the risk of bankruptcy in case of a panic. M. Gautier, who was afterwards deputy governor of the Bank, states positively in his study on the institutions of issue in France and

Evolution of Credit and Banks

America, that out of 97,000,000 francs of paper discounted there was as much as 80,000,000 which represented obligations of the collectors-general taken at 6 per cent, and which the Bank would not have been able to rediscount, even at 12 per cent. On the other hand, from the year VIII to the year XIII, the Bank had advanced to the public Treasury 722,000,000 francs; the total of all discounts during this period of six years was scarcely three times this amount. Now, in the year XIII, the circulation of bank notes had reached nearly 80,000,000 francs. The maximum reserve had not gone beyond 24,000,000 francs, and the "portfolio" contained not more than 17 per cent of real commercial paper, that is, of negotiable paper or paper convertible into specie. Notice that we have spoken of the maximum reserve; the minimum fell the same years (1804-5) below 2,000,000 francs. At the slightest economic disaster, the Bank, placed in this abnormal situation, must necessarily get into difficulties.

We will not describe in detail the transactions with the Merchants' Association, conducted by the celebrated army contractor, Ouvrard. This company had dealings with the Treasury. It discounted effects at the Bank, in return for which the latter gave bank notes, increasing by that much the circulation. Now, these effects were credit paper, and the Bank had taken them only to oblige the Government, then represented by Baron Marbois, Minister of the Treasury. In addition to this, after the Emperor had set out for Germany, the rumor was circulated in Paris that he had carried away the metallic

National Monetary Commission

reserve from the Bank to fill his army coffers. The statement was not true. To be sure many soldiers had come to draw money from their accounts at the Bank in order to take the field. As a result of the working of all of these causes, a real panic arose. Bank notes were presented in great numbers at the doors of the Bank of France. The directors of this establishment made the mistake of restricting their discounts—a disastrous proceeding at such a moment. The bank notes depreciated 10 and 15 per cent. The Bank was reduced to a partial suspension of payments; it limited the redemption of notes to 600,000 francs a day. The Bank acted more wisely in sending to the provincial bankers paper on their own localities, asking them to send back the value of this paper in specie.

What mistake had been made? Issuing more bank notes than the needs of commerce justified. And in exchange for what securities had the Bank made this issue? In exchange for the credit paper of the government contractors; in exchange for the obligations of collectors-general which could not be paid, because the directors of the Merchants' Association had already received the money that these obligations represented. At the critical moment the specie in the coffers fell to 782,000 francs on September 24, 1805, in the face of a circulation of 63,000,000 francs. Order was reestablished by the end of a month. The victory of Austerlitz helped, and also the more or less regular measures that had been adopted pell-mell, good and bad together. It was certainly, too, the opinion people had of the relations of the Bank with the State

Evolution of Credit and Banks

that had aggravated this crisis. It is moreover a typical example of the mistakes that may be committed by a bank of issue, both in becoming involved in a difficult situation and in trying to escape from it by expedients which are for the most part more harmful than efficacious.

Napoleon, on returning from Germany, was much alarmed at this crisis, the real causes of which he did not clearly grasp. He wanted to have the Bank "more in his hands," and, with this in view, prepared a new constitution for the establishment. It was the decree of January 16, 1808, which sanctioned these modifications.

CHAPTER III.—*The fundamental statutes of the Bank—
It comes into closer relation with the State, 1806–1814.*

The law of April 22, 1806.—Decree of January 16, 1808, ratifying the law of April 22, 1806.—The Bank creates branch offices in the provinces.—Limited transactions of these Comptoirs.—Their disappearance.—The Bank of France from 1808 to the fall of the Empire.—Industry in France at the end of the eighteenth century and the beginning of the nineteenth.—National expositions at Paris under the Empire.—The efforts of learned men.—Political obstacles.—Napoleon's anxiety for his Bank. His study of the question.—Napoleon asks Mollien to explain the nature of a bank of issue.—The Havre note.—Masterly statement of the true mechanism of a bank of issue.—Extracts from the Havre note, May 29, 1810.—The opinion of Mollien on the nature of the operations of a bank of issue.—The last years of the Empire.—Danger of holding state paper in panic times.—Crisis of 1814. Panic of holders of notes.

According to the law of April 22, 1806, the committee of three which had been chosen from the regents named by the stockholders to govern the Bank, was replaced by a governor and two deputy governors, named by the head of the State. The first governor was M. Crétet, Councillor of State. He assumed his duties April 25, 1806. This governor was nothing more than a functionary, subject to the dictates of the State. The privilege was prolonged twenty-five years beyond the fifteen years granted by the law of the year XI. The capital was doubled by the issue of 45,000 new shares and raised, consequently, to 90,000,000 francs. The regents' council, still composed of 15 members, was to include 5 manufacturers, merchants, or mill owners, and 3 collectors-general. This introduction of manufacturers, tradesmen, and collectors-general into the board of directors came from Napoleon's notion that the crisis was caused by the bankers themselves. He was not overfond of them, especially since the Consu-

late, when they had refused him money, and he distrusted them because he saw that they made use of the Bank to advance their own interests.

In placing Crétet at the head of this establishment, Napoleon, knowing the tendencies of the governor and his administrative skill, transformed the Bank of France in reality into a state bank whose capital was furnished by private individuals.

The annual dividend was composed, first, of a distribution not to exceed 6 per cent of the original capital; second, of a second distribution equal to two-thirds of the remaining profits. The other third was kept in reserve.

The imperial decree of January 16, 1808, ratified the law of April 22, 1806. It was there specified that the Bank should create in the principal provincial towns branch offices, chiefly in places where they would serve the needs of commerce. Several months later, a decree of May 18, 1808, regulated the organization of these branches. The rate of discount was fixed at 5 per cent. Once a year the Minister of Finance was to make a report on the transactions of each branch office, and propose, if it were judged necessary, a lowering of this rate. In obedience to this order, branches were created on June 24, 1808, at Lyons and Rouen. The Bank had the exclusive right of issue only in the towns where it had branch offices. The State could therefore give this privilege to other establishments in other places. A third branch was founded at Lille May 29, 1810. This latter was not successful, and closed its doors in 1813. It had been very little patronized, and its affairs were not difficult to liquidate. The branch at Rouen had a rather

National Monetary Commission

brisk business for several years. People in Rouen were already used to banks of issue and to bank notes. We have seen above that in that town there existed a very prosperous institution of issue when the founding of the Bank of France and the suppression of the right of free issue of bank notes were decreed by the Directory. The Lyons and Rouen branches each lasted nine years, and were closed in 1817. The latter had discounted in this time commercial bills to the amount of 160,000,000 francs, or an average of 17,500,000 francs a year. The profits had not been large. The Lyons branch had been a little more active, as the location was more favorable to business than Rouen. The first few years were fairly good. It was not until 1810 that the Bank sent to its branch offices notes of the denomination of 250 francs. On this occasion the rate of discount, which had been 5 per cent, was lowered to 4 per cent. But the foreign invasions and the slackness of business which marked the downfall of the Empire brought about the closing of the branches. In reality, the Bank had not become much involved in this scheme. If these establishments made some profits in the first years, they saw them disappear and even change to losses in 1817, when they ran short 100,000 francs.

The law of 1806 and the decrees of 1808, which confirmed and at the same time aggravated it, had, as we have seen, brought the Government and the Bank closer together. At that period the Bank was chiefly a state concern. For four years, until 1812, no difficulties were encountered. To be sure, business was dull, the political situation was uncertain; continual wars interfered with

Evolution of Credit and Banks

the setting up of industrial and commercial enterprises. Capital was abundant and idle. The year 1810 was the only one which can be reckoned in any degree active; the Bank made discounts amounting to a total of 715,000,000 francs, and that thanks to the lowering of the interest rate to 4 per cent. But at the beginning of the year 1812 it had in the coffers 114,000,000 francs in specie, and in circulation 117,000,000 francs in bank notes; commercial discounts amounted to only 15,000,000 francs; in the course of the year they even fell as low as 10,000,000 francs. It was the Treasury which furnished bills for discount. Thus in 1811 the Bank discounted state obligations to the value of about 15,000,000 francs. These obligations went under the name of excise duties (*droits réunis*), and had to do with the tax or octroi on goods brought into the city. In 1812 the same kind of obligations were discounted again for the sum of 2,000,000 francs. In addition, an advance of 40,000,000 francs had been made to the State in the preceding years on the obligations of the collectors-general. At this moment, therefore, the principal client of the Bank was the Treasury, and the Bank was neglecting for the Treasury the interests of its clients in industry and commerce.

However, it was not the elements of economic progress that were lacking in France. In spite of the Revolution, in spite of the anarchy of the Directory and the grave financial disturbances resulting from it, a renewal of industry, a veritable revival of the arts, business, and inventions had taken place. This is proved by the number of expositions held at that time.

National Monetary Commission

The first exposition which was opened in Europe was organized by France. It was held in the Champ de Mars, and lasted a week, but was not a very brilliant affair. There were 110 exhibitors, of whom 10 or 12 received prizes. The expositions of 1801 and 1802 were more successful. Carcel received a prize for his lamps, Jacquart for his machine loom, Ternaux for woolen stuffs, Montgolfier, of the town of Annonay, for his paper, Fauler for his morocco leather. At the exposition of 1802 were seen cashmere shawls, imitating those of India, Sallandrouze carpets, and Sèvres porcelain. After the victory of Austerlitz a new exposition was planned, and the buildings erected on the parade ground of the Invalides. Twenty-seven gold medals were distributed, 146 silver medals, 326 honorable mentions, etc. The following table will give an idea of the increasing importance of these expositions:

	Date.	Exhibitors.
First exposition.....	1798	110
Second exposition.....	1801	220
Third exposition.....	1802	540
Fourth exposition.....	1806	1,422

The discoveries in chemistry which revolutionized at that time certain industries, as, for example, the manufacture of artificial soda, the improvements in the paper industry, and, finally, mechanical inventions for spinning and weaving—all these were the vanguard of the one supreme invention most marvelous of all, namely, the steam engine. Chaptal, Berthollet, Conte, Vauquelin, Thénard, Jacquart, and others were working to bring out

Evolution of Credit and Banks

of science new industries. But political obstacles arose, hindering economic progress. Even though the nearly continual wars supported themselves, and though they involved the manufacture of arms and munitions, and so furnished employment to the industries connected with the equipment and maintenance of armies, they took away many hands from agriculture, manufactures, and commerce. Peace is the first necessity of business prosperity. Business enterprises can not be launched without a fair certainty that no unforeseen event will bring them to grief. This explains the very slight commercial activity of the Bank during these years, but the years to follow are still more unfavorable and more filled with trials for this institution.

Napoleon was solicitous for all that concerned the Bank—*his* Bank as he called it in discussions in the Council of State. He urged his ministers to study the subject. Among them was Mollien, Minister of the Treasury,^a a highly educated man, very learned both in economic theory and practice. Napoleon was attached to him not because of any liking for him, but because he was useful. Mollien dared tell the truth to the Emperor; he was never a courtier. Napoleon had asked him his opinion on the Bank of France. The Emperor was (May, 1810) at Havre, and in correspondence with Mollien in regard to founding a branch office of the Bank at Lille. In a letter dated May 20 he said to his Minister of the Treasury, after speaking of discount at Rouen: "Make me a report

^a There were at that time, and during the whole period of the Empire, two Ministers of Finance: The first, Gaudin, Minister of Finance, or Receipts; the second, Mollien, Minister of the Treasury, or Expenditures.

National Monetary Commission

which will help me to understand the nature of the deposit of the Bank of France. Who issues the bank notes? Who receives the profits? Who furnishes the funds?" Mollien replied in the celebrated memorandum called the Havre note, in which he makes clear the true theory of banks of issue. This was called the Havre note, because the Emperor was still at Havre, and wrote to Mollien on receiving it: "This is the first thing I have ever read on the subject that is perfectly clear, well thought out, and without abstractions; I had an idea of having it printed, but I should like to know first if there would be any objection. Take this memorandum to the Bank as coming from me and give them a chance to attack it in your presence."

We will give the most important points of this document. The question is admirably stated, and it is here that must be sought trustworthy information as to the true mechanism of a bank of issue. It is, let us note in passing, sufficiently surprising that Napoleon adopted so readily such daring ideas: "The purpose of this capital (the 30,000,000 francs decreed by the law of the year VIII) was not to give the bank the funds necessary to exploit its privilege; this capital is not the instrument of its discounts, and can not be used for discounts. The privilege of the Bank consists in the right to create and manufacture special money for its discounts. If a bank used its capital for discounts, it would not need any privilege. * * * It is independently of its capital that it creates by its notes its true and only discounting medium. * * * The necessity of furnishing capital is imposed on the founders

Evolution of Credit and Banks

of a bank only in order to provide those who accept its notes as real money with a pledge and guaranty against the errors and imprudences that this Bank may commit in the use of its notes, or against any losses it may suffer from admitting doubtful bills to discount; in a word (to use the technical expression of commerce), against its bad paper (*avaries de son portefeuille*).

"Since a bank issues and must issue notes only against good and valid bills of exchange, having two or three months to run at the outside, it should have on hand in its 'portfolio' in bills of exchange a sum at least equal to the notes issued; the bank is then in a position to withdraw all its notes from circulation within the space of three months, simply as a result of the successive falling due of the loans, and this without involving any part of its capital."

Mollien shows next that a bank of issue must be a bank engaging only in operations of commercial credit; that its administrators must refrain from all participation, direct or indirect, in industrial or commercial enterprises; and he expresses himself very clearly on this point as follows: "Discount, as it is practiced by a bank on everything discountable in a particular place, is such an important and delicate operation, demanding so much attention, so much foresight, so much care, such minute observation of the methods used by each tradesman, and the adjustment of supply and demand in each locality, of the circumstances which may lessen or increase day by day the credit of each signer of a bill of exchange—all these duties are such that the operation does not

National Monetary Commission

admit the intrusion of any other interest. Those who decide on discounts are the judges of trade; they ought not to descend into the arena of commerce."

It should be noted here that Mollien advocated the privilege of the Bank, but for Paris only. He did not advise extending it to the whole of France, nor did he think that discounts of provincial banks could be profitably managed from Paris. He admitted, however, the feasibility of branch offices, knowing that Napoleon was in favor of them; but the Minister of the Treasury in no way disguised his belief as to the precautions necessary in such a case. Let us say that the fears of Mollien were not justified. What explains his timidity on this point is that the railroads and telegraph were not yet in existence, and communication between Paris and the provinces was slow and difficult and often uncertain.

Having made this digression to show the economic situation of that time, and the attitude of Napoleon and his minister, Mollien, toward the Bank of France, let us resume the account of the progress of the Bank, which we left at the end of 1812.

The year 1813 was unfavorable. The Empire was visibly beginning to decline. The loans of the Bank to the Treasury exceeded 340,000,000 francs. The discounts fell to a total of less than 30,000,000 francs. It is true that the circulation of bank notes diminished as well. After being at 134,000,000 francs maximum and 82,000,000 francs minimum in 1812, it fell to a maximum of 95,000,000 francs in 1813.

At this moment the Bank was creditor of the State for the amount of 54,000,000 francs (40,000,000 francs direct

Evolution of Credit and Banks

loan and 14,000,000 francs on the excises), without counting the advances on the obligations of the collectors-general. But, in addition, the Bank possessed a capital of 35,000,000 francs invested in government stock (*rentes d'État*). How was this capital to be realized on at such a critical moment? For the Bank had not sufficient available funds to meet its engagements payable at sight. If we examine the maxima we shall see that the Bank had in its coffers 39,000,000 francs in specie, but it owed at sight 95,000,000 francs on bank notes in circulation and 23,000,000 francs on current accounts of depositors; in a word, 39,000,000 francs versus 118,000,000 francs. Its "portfolio" was not easy to rediscount, composed as it was of state paper. A part of the capital, of course, was in the 35,000,000 francs invested in government stock. But how was this stock to be sold off? At the price to which it had then fallen the Bank would have lost on the purchase price. It would have forced the price of this stock still lower if such a quantity of it had been put on the market. Finally, the State, which had so much influence on the Bank, would not have allowed this operation to be carried through, because of the depression which it would have caused on the Bourse. In the month of December the Bank redeemed notes for about 40,000,000 francs. But as the crisis grew more acute the general council of the Bank asked to restrict redemptions to 500,000 francs a day, beginning with January 20, 1814. This state of things lasted until April 14, 1814. Toward January 20, at the height of the panic, at the moment of the invasion, the Bank borrowed 6,000,000 francs, with-

National Monetary Commission

out which it would have been obliged to suspend payments entirely. This loan, in all probability, was made by one or more private bankers in Paris.

As soon as the political crisis was over, the affairs of the Bank resumed their normal course. Nothing was modified in its organization, although Laffitte and the general council had proposed to bring the Bank back to its original purpose before it had become a ward of the State. It was proposed also to keep the exclusive privilege of issue only for Paris, to give up provincial branches, and to leave the election of the governor to the stockholders. But these plans could not come up for discussion. The Ministers of Finance were perplexed with too many grave problems at that moment, and when Gaudin, former Minister of Finance under the Empire, was nominated governor in 1820, all hope of liberal reform took flight. Two motions had been laid before the Chambers of Deputies in that interval (1814-1820), one on November 16, 1814, the other on April 13, 1818; both aimed at a reaction against the imperial decrees which had reduced the Bank to a state dependency. These two plans came to nothing.

CHAPTER IV.—*The Bank under the Restoration—Founding of departmental banks.*

Several banks have the privilege of issue in France. The departmental banks.—Conditions of issue imposed on these three banks.—Difficulty of founding departmental banks.—Crisis of 1818.—From 1818 to 1830.

The liberal ideas of Laffitte and his friends, though they had not succeeded in modifying the despotic constitution imposed on the Bank by the Empire, resulted at least in several liberal measures in another quarter. The most important was the establishing of departmental banks. These banks also had the privilege of issue in the centers where they were established and even in a little wider circle.

They were of real service to the towns and districts where they were situated. The need of them was all the greater because, as we have seen, the Bank of France, after opening a number of branch offices, had closed them following several years of poor returns.

Three departmental banks were founded under the Restoration; they were, let it be remembered, banks of issue. Here is a short account of each of them:

The Bank of Rouen (May 17, 1817) —Capital, 1,000,000 francs; charter to last nine years; right of discount for Rouen, Havre, Paris; right of paying interest on deposits, even sight deposits (it exercised this right); right of issue; its charter was renewed in 1826; the bank increased its capital at intervals and when it disappeared in 1848, for reasons that we shall explain later, the capital was 3,000,000 francs.

National Monetary Commission

Bank of Nantes.—Chartered May 18, 1818; did not begin operations until January 1, 1822; original capital, 600,000 francs; right to pay interest on deposits; right to discount paper on all the markets in France; right of issue; this bank, too, increased its capital at intervals; in 1840 it was 3,000,000 francs. It restricted its privileges of discount to Nantes, Paris, and Bordeaux.

Bank of Bordeaux.—Chartered by royal decree November 23, 1818; original capital, 3,000,000 francs; same rights as the two preceding banks. The Bank of Bordeaux went through more acute crises than those of Rouen and Nantes. Its capital was not increased, properly speaking, since in 1843 it was still 3,150,000 francs. In the beginning it had great difficulty in getting the public to accept its notes. People gradually got used to them, however.

As we know, the Bank of France had submitted in its statutes to no special conditions for the issue of bank notes. Not so the departmental banks. In the first place, they had the privilege of issuing notes only for their headquarters and several other towns mentioned in their statutes. Then the total of their engagements payable at sight could in no case be more than three times the metallic reserve. But these banks, contrary to the condition imposed on the Bank of France, could choose their own directors, at least until 1840.

In order to establish a departmental bank under the Restoration, it was necessary to obtain the consent of the government offices and the council of state. In the offices, as well as in the council of state, there still prevailed the formalism, slowness, and red tape by which

Evolution of Credit and Banks

France had been governed despotically during the Empire. On the other hand, the Bank of France, although it had closed its branch offices, did not see these new establishments founded without a certain anxiety. It used its influence on the central government to delay their creation. So there were many obstacles to overcome in obtaining permission to found a departmental bank. And, even when the permission was granted, the bank was obliged to work within rather narrow limits. Conditions were imposed on the directors in banking statutes which were not of the least use in protecting the interests of the public, and yet were a hindrance to the extension of business. In spite of this, these concerns prospered. As we shall see further on, they increased in number under the Monarchy of July. The Bank of France, alarmed by this competition, began anew to found branch offices after the Revolution of 1830.

In 1818 the Bank suffered a crisis, caused by the demand for capital, made first by France, to pay the indemnity to the Allies, then by other countries, such as Austria, Prussia, Russia, etc. These loans diminished the supply of specie, especially in the Paris market. The cash in the coffers of the Bank fell to 34,000,000 francs at a moment when the sight liabilities amounted to more than 160,000,000 francs. This time the Bank did not ask to limit payments, but resorted to the expedient of refusing to discount all paper having more than forty-five days to run. The object of this was to avoid increasing the discount rate, but the proceeding is open to severe criticism. It would have been better if the Bank had obeyed the law of supply

National Monetary Commission

and demand. In limiting discounts to short-dated bills, it embarrassed merchants, who needed money all the more, in that they had on hand nothing but sixty and ninety day paper. They would willingly have paid a higher rate for the credit they needed. On the other hand, in maintaining discount at the same rate as formerly during a crisis caused by a scarcity of specie, the Bank gave an undue advantage to holders of short-dated paper, and yet this paper was not to fall due until a month and a half later. In our opinion, it is a great mistake for a bank of issue not to vary the rate of discount according to the fluctuations of the money market.

The history of the Bank from 1818 to 1830 offers no feature sufficiently noteworthy to serve as a subject of study. The total of its issue showed a tendency to increase. In 1818 its maximum reached 126,000,000 francs; in 1830, 239,000,000 francs. Its minimum was 87,000,000 francs in 1818, and 214,000,000 francs in 1830. From 1820 to 1830 the minimum of circulation or issue approached the maximum. There was a like tendency in the specie reserve. As for the commercial discounts, they underwent fluctuations by periods lasting several years; they diminished from 1819 to 1824, and increased until 1829, at which time there was a depression. Excepting for the year 1830, this depression was somewhat visible until 1835.

CHAPTER V.—*The Bank of France under the Monarchy of July—Founding of comptoirs or branch offices—Renewal of the privilege, and competition with departmental banks.*

Discount crisis of 1830.—Political causes of the crisis.—Lack of intermediary bankers.—Necessary evolution of credit with a single bank of issue regulated in its operations.—Loans on securities, 1834.—Formation of new departmental banks.—Plurality of banks of issue.—Branch offices of the Bank of France.—Crisis of 1836-37.—Renewal of the privilege of the Bank. It is prepared in 1840.—The representatives of the departmental banks lay a request before the authorities.—The law of May 21, 1840. Extension of privilege.—The privilege is confined to Paris.—The balance sheet must be published every three months.—The State ceases chartering departmental banks.—The Bank keeps the rate of discount at 4 per cent. Too high a rate.—Capital is cheap.

The Revolution of 1830 did not injure in the least the particular credit of the Bank. Government stock did not even pass through the fluctuations usual in such circumstances. But this is not true of commerce and industry in general. To relieve the embarrassment of several local markets it was necessary to adopt unusual measures.

As the Bank took paper only with three signatures, the Government used its influence and had a credit of 30,000,000 francs voted by the Chambers on October 17, 1830, to be applied to discounting commercial paper with two signatures. A provisional establishment was opened a few days after the voting of this credit to handle these loans. It bore the name of *Comptoir d'Escompte*, and lasted from October 26, 1830, to September 30, 1832, or twenty-three months. It had received from the State 1,760,000 francs out of the appropriation of 30,000,000 francs. The city of Paris was authorized furthermore to go security for this provisional bank with the Bank of

National Monetary Commission

France to the amount of 4,000,000 francs. It was an intermediary between commerce and the Bank; it furnished the third name, and rediscounted its paper at that establishment of issue. In these twenty-three months it discounted more than 37,000 bills, valued at over 20,000,000 francs. This Comptoir discounted paper on Paris at 4 per cent; on the provinces at 5 per cent.

Banks of the same nature were organized in answer to the same needs in certain maritime centers or ports, such as Rouen, Nantes, Rochefort, and in certain manufacturing towns, such as Reims, Troyes, and a few others.

This was not a monetary crisis, like the one of 1818, when France had to pay the foreign armies camped on her soil, and also the war indemnity exacted by the allies. The crisis of 1830-31, which lasted until about the middle of 1832, had a political cause. The Government of July was not thought to be firmly established, and the ease with which the Revolution of 1830 had been accomplished aroused continual fears of a new change of rule.

The Bank suffered much from this state of things. In 1832 the maximum figure of its commercial discounts did not amount to more than 30,000,000 francs. Its reserve, however, was very high, and reached a maximum of 282,000,000 francs, and a minimum of 217,000,000. The maximum circulation in 1832 was 258,000,000 francs, and the minimum 202,000,000 francs. Therefore its banknotes in circulation represented for the most part the metallic reserve. If the Bank was not of more service then, it is because intermediaries were lacking—that is to say, bankers who by adding their own names to the

Evolution of Credit and Banks

bills discounted by them, and already bearing two names, could rediscount this paper at the Bank of France. With a system in which a single bank has the exclusive privilege of issue, accepting for discount paper with three names only, or with two names accompanied by collateral security, intermediary banks of discount are necessary. We shall see this inevitable tendency develop little by little in the organization of French banks. Even at the very beginning, the Bank of France was a bankers' bank. Later, we shall see it become the bank patronized by the credit associations when its privilege had been extended to the whole of France. As business expanded, the general activity of banking operations naturally expanded also. We shall see, too, that the Bank of France became in this way the pivot on which revolves the whole credit system of the country.

The statutes of the Bank had permitted it heretofore to make loans only on short-dated state securities; the law of May 17, 1834, authorized loans on all state securities without stipulation as to maturity. From this time on the Bank made loans against deposits of French government stocks.

After 1835 new departmental banks were created. In 1835 a departmental bank was founded at Lyons with a capital of 2,000,000 francs, and a twenty-year privilege of issue. The Bank of Marseilles, with a capital of 4,000,000 francs, was chartered the same year, and was very successful. In 1837 another one was opened at Lille, with a capital of 2,000,000 francs. The same year that of Havre was chartered and in 1838 the Bank of Toulouse, with a

National Monetary Commission

capital of 120,000 francs, and the Bank of Orleans, with a capital of 1,000,000 francs.

This was the last to be created, as the Government refused to charter any others. We have already said that the Bank of France was naturally suspicious of the founding of these establishments, although its own privilege was limited to Paris. In the beginning, however, the Bank was inclined to be favorable to the opening of these departmental institutions of issue, but afterwards it tried to keep them from multiplying, and set about organizing branch offices in the departments.

These nine departmental banks were well administered and performed much useful service. It has been ascertained that in the very unfavorable year of 1847 these banks, with a total capital of 23,400,000 francs, discounted commercial paper to the amount of 850,000,000 francs—in other words, thirty-two times their capital, whereas the discounts of the Bank were only twenty-seven times its capital.

These departmental banks, therefore, subsisted under very nearly normal conditions, by virtue of rendering services. They might have come to an agreement to make their bank notes interchangeable, but no such thing came about.

The Bank of France, from 1835 on, opened branch offices in certain towns, and kept on increasing their number, always with the sanction of the State. They soon came under the provision of the law of March 25, 1841. Branch offices could not be formed without a state charter. They were under the direction of the Bank.

Evolution of Credit and Banks

The general council of the Bank fixed the rate of discount. The Bank had the exclusive privilege of issue in the towns where branches were established. The notes had to be manufactured at Paris and furnished by the Bank in denominations of not less than 250 francs. Each branch office had to redeem its own notes; but the redemption of a note from the central Bank in Paris by a branch was optional; the same was true for Paris regarding the effects of the branches. The directors and censors were named by the Bank; the governor by the State. As a result of this law, 15 branches were opened between 1841 and 1848.

The crisis of 1837 was caused by events in the United States. President Jackson was engaged in a bitter struggle with the Bank of the United States, a centralized and single bank of issue. A business disturbance resulted, which made itself felt in France and England. It was a monetary crisis. The coin which had left the country during the last months of 1836 returned gradually toward the end of 1837. The crisis was not a serious one, and was met without much difficulty by the French credit institutions.

The privilege of the Bank of France, granted at first for fifteen years, was extended by the law of April 22, 1806, to twenty-five years, making forty years in all. The Bank began in 1838 to ask for renewal, but the question was not taken up in the Chambers until 1840. The departmental banks, profiting by the fact that a law for the Bank of France was under consideration, tried to get more latitude for their own transactions. They were

National Monetary Commission

subjected to very narrow regulations, which cramped them and made it impossible for them to perform the services which might normally be expected. No heed was paid to the representatives of these banks or to the protest that they made.

The law of May 21, 1840, continued until December 31, 1867, the privilege of the Bank, which was to expire in 1843. This extension was granted with the reservation that the privilege could be changed or even withdrawn on December 31, 1855, if a law passed in one of the two preceding sessions of the Chamber of Deputies should so decide. The capital of 67,900,000 francs was officially recognized; this sum could neither be increased nor diminished except by law. The Bank was authorized to make loans on French Government effects of any kind whatsoever.

The question of complete privilege, extending to the whole of France, it is seen, does not figure in the law of May 21, 1840. It was understood that the privilege was renewed for Paris only, and when the Bank wished to found branch offices it must obtain special permission from the Government. That question was avoided; it was not mentioned in the discussions carried on in the Chambers.

Strangely enough, the necessity of publishing quarterly reports was made a matter of debate, though it would naturally seem that the first duty of a credit establishment, especially one enjoying a privilege, is to keep the public informed of its operations. It was decided, then, that the Minister of Finance should publish every three

Evolution of Credit and Banks

months the statement of the Bank averages for the preceding trimester, and every six months the result of operations for the half year, including the dividend rate.

It should be mentioned that from this day on the State issued no more charters for departmental banks. The Bank of France, on the other hand, increased its branch offices. A certain number were opened each year from 1841 until 1846.

During the whole period from 1840-1846 there were no disturbances or difficulties of any kind. The business of the Bank prospered, its credit extended. The departmental banks, in spite of the requests of their representatives, failed entirely in their attempt to get more liberty in their operations.

The circulation of the Bank continued to increase from 1840 to 1846. In the latter year it reached a maximum of 311,000,000 francs and a minimum of 243,000,000 francs. But, on the other hand, the commercial discounts were not on the increase. As for the specie reserve, it amounted in 1846 to a maximum of 252,000,000 francs and a minimum of 150,000,000 francs.

It is true that there was at that time a dearth of business transactions, but there is no doubt that the Bank held its discount rate at too high a figure, considering the abundance of capital from 1840 to 1846. Even the State, finding it cheaper to borrow elsewhere, did little business with the Bank from 1837 to 1846.

However, in spite of this calm, France was about to be visited by a succession of panics, which had various causes, in the midst of which the Monarchy of July was destined to go under.

Evolution of Credit and Banks

CHAPTER VI.—*The beginnings of the railroad industry—Panics of 1846, 1847, 1848—The departmental banks of issue are incorporated with the Bank of France, which becomes the sole bank of issue.*

Delay in constructing railroads in France. The period from 1823 to 1839.—The extension of the railway system in France. The law of June 11, 1842.—Call for credit for the construction of the railroads.—Bad crops in 1846. Wheat famine in France.—The panic of 1846-47.—Measures adopted by the Bank.—Error of the Bank.—End of the financial crisis of 1847.—The Bank resumes the 4 per cent discount rate December, 1847.—Bills for 200 francs.—Political crisis of 1848. Panic.—Able and courageous attitude of the administration of the Bank of France (1848).—Forced currency. Decree of March 15, 1848.—Notes of small denominations. Their advantages and disadvantages.—Comparison of the crisis of 1848 with that of 1846-47.—Elements of time and place which must be considered.—Several departmental banks issue bills for 25 and 50 francs.—Duty of a bank of issue in panic times.—Weekly publication of the Bank balance sheet, hitherto published only once in three months.—No clearing house (*chambre de compensation*) in Paris at that time.—Departmental banks.—Difficulties experienced by departmental banks. Possible solutions of these difficulties.—Incorporating of the departmental banks of issue with the Bank of France on April 27 and May 2, 1848.

Capital was abundant and idle in France from 1840 to 1846; the rate of interest had consequently lowered. On the other hand, the construction of the new means of transportation—railroads—had not gone on as rapidly in France as in certain other countries. From February 26, 1823, when the first grant was made, until 1840, a little over 100,000,000 francs had been used for building railways. In 1837 there were in France only about 149 kilometers of railroad of general utility and 27 kilometers of industrial railroads. At the end of 1841 the Government had issued concessions for 805 kilometers of industrial railroads; it had itself built 78 kilometers. In reality, at the end of 1841 there were only 575 kilometers of lines of general utility being operated and 65 kilometers of the industrial lines.

The critics in the Chambers who blamed the Government for not favoring and making easy the construction of the railways, added to the fact that money was cheap, induced the Government to take action. The law of June 11, 1842, was made for the purpose of hastening the extension of railways in France. It should be mentioned that the State intervened as the associate of the companies.

In 1842 the number of miles of railroad for which grants had been made was 947 kilometers, and 4,133 kilometers at the end of 1847. The lines in operation had risen from 665 kilometers at the end of 1842 to 1,927 kilometers at the end of 1847.

After going too slowly at first there was now a tendency to go too fast. The obligations resulting from grants made, added to the sums already spent, amounted to a total of nearly 2,000,000,000 francs at the end of 1846.

The companies had appealed for large sums, and people gradually got used to loans that would not have been thought so easy to carry through a few years before. And it was at this moment above all that the real character of the French people was revealed; in a word, their resolute love of economy, which may be best summed up by the word prudence. This has been the mainstay of France for the last fifty years or more, and that is why recovery came quickly after the disasters of the war of 1870-71. But if the spirit of prudence is a useful factor in the wealth of a country, it has one disadvantage when it is an only factor: It destroys or lessens initiative; to a certain degree it paralyzes action; it does not dispose to boldness in industrial and commercial enterprises.

National Monetary Commission

The call for capital had lessened the supply in the French market. Another cause of hard times arose, too, in 1846. That year the crop of cereals was poor in most of the European countries, especially in France and England. These two countries were obliged to purchase foreign grain. The purchase of this product abroad increased the figure of current imports and had to be paid for in specie. The Bank of France would, therefore, have to be prepared to see its metallic reserve diminish.

The extent of the famine was understood and foreseen as early as the spring. From that time commerce set about making foreign purchases. However, the Bank did not feel the effect of these operations until July. From 1846 until the end of January, 1847, the reserve diminished by 173,000,000 francs. On December 31, 1846, the specie in the coffers was scarcely 71,000,000 francs. During the preceding month of October 53,000,000 francs had been paid out at the Bank, in November more than 43,000,000 francs; or nearly 100,000,000 francs in two months. This demand for specie ceased at the end of January, because that was the time of the annual return of specie, caused by the falling due of payments on sales made by exporters.

The Bank then resorted to unusual means. It collected at great expense about 2,000,000 francs in specie from the departments, and sacrificed its government stock to make the purchase of about 45,000,000 francs' worth of bullion. These measures were excellent in principle and due to the prudence of the Bank's management, but they were not all equally useful. At any rate the surrender of

Evolution of Credit and Banks

50,000,000 francs capital in the form of government 5 and 3 per cents, payable in Russia, was not necessary, for at that moment the reserve had gone up again to 110,000,000 francs. This transaction with the Russian Empire resulted, however, in making a better rate of exchange for the French importers.

The Bank made the mistake of increasing too late the rate of discount. It had maintained it at 4 per cent for a long time, when the current rate was less. Then the Bank kept the rate at 4 per cent during the whole time of the panic and put it up to 5 per cent January 14, 1847. It should have raised it sooner and not at the time when all the metallic deposits were commencing to flow in. Without any question, a privileged bank, for the very reason that it is privileged, ought not in time of crisis to limit discounts in order to save its reserve at all costs. It ought to serve commerce and not tend to restrict its issue. It should supply credit abundantly; the privilege makes this a duty. This being the case, the Bank came to the rescue too late.

The failure of three railroad companies lessened the expenditures on great public works.

All the operations of the Bank at the time of the panic just described, together with the slackening of work on the railroads (and also the gradual disappearance of the difficulties coming from the grain famine of 1846), helped to restore business to its normal course. At the end of December, 1847, the Bank resumed the 4 per cent discount rate that it had always maintained since 1822. This stability may well seem strange, because in the space

National Monetary Commission

of twenty-five years the price of capital, even in a calm market, must necessarily vary. A fixed discount rate has certain important advantages; it enables commerce to calculate the price of discount in advance and to make a very nearly exact forecast of costs in its plans. But, on the other hand, a bank of issue, placed in a position to see the fluctuations of capital and the needs of commerce, should warn the merchants, its patrons, and the whole body of people having business interests, of the change in the state of credit. It should signal any degree of scarcity by raising the rate of discount. At times this increase is nothing more than a warning, in which case it should be slight. In certain other cases, when money is easier, the Bank must not hesitate to lower the rate of discount. In fact, the discount rate of a bank of issue, especially if it is the only one and with a privilege, is a sort of official barometer which private banks consult in fixing their own discount rate. As these private banks may rediscount their commercial paper at the bank of issue, they usually follow its discount rate. This was especially the case until the great credit companies began to make discounts on a vast scale with the large deposits that the public gradually entrusted to them.

The law of June 10, 1847, reduced the denomination of the smallest bill issued by the Bank of France to 200 francs. These bills were not put in circulation until the 28th of the following October.

If the Bank of France was no longer seriously disturbed by the crisis, the trouble was not entirely at an end for commerce, which was still straightening out business entangle-

Evolution of Credit and Banks

ments and asking for credit and specie from the private banks.

When the revolution of 1848 broke out, on February 24, these private bankers lost their heads completely. They wrote to their correspondents in the provinces that they were obliged to stop business and go into liquidation. This decision increased the panic in Paris, and caused it to spread to the departments, where commerce and the banks had been disposed to stand up against the shock.

The Paris merchants, seeing this defection, applied to the new government for aid. The latter decreed on March 7, 1848, the formation of the discount bank (*Comptoir d'Escompte*) which we shall study later.

Meanwhile, the Bank of France alone was left standing to bear the brunt of the crisis. It faced the situation with courage and ability. The Paris bankers, we have said, were overcome by fear, and having already rashly engaged their resources, could not come to the aid of commerce. The Bank, well advised at this conjuncture, did not restrict discount and did not increase the discount rate, which still remained at 4 per cent. In sixteen week days, from February 26 to March 15, the Bank discounted bills for 110,000,000 francs. The Treasury happened to need money and withdrew the sum of 77,000,000 francs from its current account, where it had a credit balance of 125,000,000 francs. The provincial branches followed the same course. In the same space of time they discounted commercial bills for 43,000,000 francs, and in addition put 11,000,000 francs at the disposal of the public services for the most urgent needs.

National Monetary Commission

Meanwhile, the Bank of France found itself in the presence of a political panic which no argument could calm. It resisted the shock without flinching. Between February 26 and the evening of March 14 the metallic reserve fell from 140,000,000 francs to 70,000,000 francs; on the evening of the 15th it had fallen to 59,000,000 francs.

Under these conditions the general council of the Bank asked the Government (1) that the bank notes should have forced currency (or forced rating)—that is to say, that the Bank should no longer be obliged to redeem them in specie; then, that they should be considered legal tender throughout the whole country—in other words, that every creditor should be obliged to receive them in payment of a debt, private individuals as well as the financial agents of the state; (2) that the Bank of France be permitted to issue 100-franc notes (200-franc notes had already been authorized, as we have seen, by the law of June 10, 1847). In panic times when coin is either scarce or hoarded the advantage of small notes is considerable, since they make it possible to settle small transactions.

It was even proposed to issue bills of still smaller denominations, such as 50 and 25-franc notes. But the general council of the Bank objected, saying that the issue of bills for 50 and 25 francs would send the metallic money out of the country, causing it to be exported. This problem can not be solved *a priori*. It is important to know in time of crisis whether the scarcity of coin is caused by a serious lessening of the national metallic supply, brought about, for example, by unfavorable exchanges over a considerable space of time, or by an excess

Evolution of Credit and Banks

of speculation. In the latter case the supply of metallic money may not have diminished, but as transactions can no longer be settled except in coin in a large measure, coin is more in demand and becomes scarce. But if the scarcity of coin is due to a political panic, as in 1848, when everyone was afraid of being dispossessed of his property, then it is a question of hoarding. The holders of coin hide as much precious metal as they can, judging that this is wealth *par excellence*, the wealth that can be taken along in case of flight to a foreign country.

In 1848, the crisis was political rather than commercial. It had not the same causes as the one of 1846 and 1847, which was produced by the flow of coin abroad to pay for wheat bought in Russia and elsewhere as a result of the grain famine in France. The famine extended to England, so that both the Paris and London markets were deprived at the same time of their supply of metallic money for their foreign payments. In 1848 it was the political panic that made people hide crowns and gold pieces.

But in a land where the memory of assignats was barely 50 years old, people were terrified, and it would have been useless to issue 50 and 25-franc notes; in any case, can we reproach the Bank for not consenting to the issue of small notes? We do not think so. At this time the Bank had not yet the privilege of issue for the whole of France; it was face to face with a provisional government; the existing means of information and communication did not make it possible to keep precise track of affairs in provincial France and in foreign countries. The members of the general council thought that the 100-franc notes were probably small

National Monetary Commission

enough, for the reason that they viewed bank notes primarily as paper money for the use of bankers or merchants, while bills of the denominations of 50 and 25 francs were intended for private individuals—for the small trade which was not friendly to credit paper and was more easily agitated and thrown into a panic. However, it should be pointed out that in 1848 it was the biggest bankers in Paris who took fright and suspended payments.

Questions of credit, both in normal and abnormal times, involve psychological elements peculiar to each nation, and these must be carefully taken into account. The compass of credit which normally points due north runs wild and is no longer a guide in panic times.

However, it is worthy of note that the representatives of the Government in the provinces, having been invested in some sort with dictatorial powers, gave the departmental banks permission to issue notes for 50 francs, and even for 25. These bills were circulated, especially at Marseilles, not only in banking and commercial circles, but also among the public. But if the Bank did not consent to issue small bills, it had nevertheless the good sense to give specie for the payment of workingmen and employees, as well as for the purchase of provisions. It made use of its notes for current commercial needs, for settling accounts, for credit transactions.

The general council of the Bank asked permission, besides, to increase the issues to a maximum of 350,000,000 francs. This was the necessary complement of the first two measures. Moreover, it is not in panic times that the total of the issues of a bank of circulation

Evolution of Credit and Banks

should be reduced or rendered stationary. Its function is more useful at this moment than at any other; the bank should create credit with its notes, being careful to discount nothing but substantial commercial paper. In this way commercial houses which are worthy of credit are saved from sudden liquidation.

The Bank realized the necessity of not cutting off supplies from commerce and industry at the critical moment. It came to the rescue intelligently, and had no occasion to regret it. In this time of general confusion the Bank was ably directed.

Nothing is more calculated to inspire confidence in a credit establishment than the frequent publication of its true situation. This is its bill of health, and it ought to state its condition with great accuracy. For if the balance sheet indicates a falling off in one general direction, or an unusual increase in another, the public is forewarned, and this establishment may be justified by these facts in adopting measures which the public would not otherwise understand.

There was no clearing house in Paris at that time. The one which exists to-day was not founded until 1872. Checks were used little or not at all; their clearly defined legal existence hardly antedates the law of August 14, 1865. The departmental banks, being also affected by the panic of 1848, asked for a forced currency for their notes and an increase in the total of their issues, which had been fixed by law without regard to their capital.

These measures were a mistake, because these departmental banks could not circulate their notes except in the

National Monetary Commission

towns where they were severally located. These notes were nothing but local currency; forced currency, therefore, of no use in bringing about a transfer of specie from one town to another. The financial agents of the State could not take these notes, since they were not current in Paris; they could not send them to the Minister of Finance. The Bank of France, on the other hand, through its branch offices, which used its notes, could make these moves. For the departmental banks they were disastrous; they created difficulties which brought about their disappearance and their merging with the Bank of France. The mistake of the departmental banks in asking for a forced currency was in not asking at the same time for the unification or uniformity of their notes. Inasmuch as their currency became forced and their maximum issue was fixed by the State, and inasmuch as bills were nothing but paper money, it would have been necessary to make them identical for all the banks. But the best operation of all would have been to have their commercial paper rediscounted by the Bank of France in return for its bills. Then, when depositors came to these establishments to ask back their funds, they could have been reimbursed in money which was legal tender everywhere. There was an undoubted error and lack of foresight on the part of the departmental banks. They had failed to use the most elementary prudence in not arranging among themselves for the exchange on demand of their notes.

This fusion was accomplished by two decrees. The first authorized the merging with the Bank of France of the

Evolution of Credit and Banks

banks of Rouen, Lyons, Havre, Lille, Orleans, Toulouse, and Marseilles, and the decree of May 2 merged the banks of Nantes and Bordeaux.

Here are a few figures relating to these nine banks to show their importance as a whole. Their total capital amounted to 23,350,000 francs.

[Million francs.]

Year.	Average of metallic reserve.	Average discounts.	Average circulation.
1840.....	23.9	50.0	54.7
1842.....	32.4	55.8	66.9
1844.....	36.6	64.2	74.3
1846.....	43.7	77.2	86.5
1847.....	41.7	85.0	90.1

They had all made profits for shareholders. The bank of Lyons yielded a dividend of nearly 29 per cent in 1847.

The crisis led to their disappearance, and established, in fact, the monopoly of the Bank of France as a bank of issue. The latter owed this advantage to the ability of its administrators, to the lack of cooperation among the departmental banks, and, finally, to the tendency of the French to centralize everything.

CHAPTER VII.—*A brief survey of the general course of business during the first half of the nineteenth century—Credit and industrial beginnings.*

Influence of individual directors in the administration of a bank.—The influence of M. J. E. Gautier, deputy-governor of the Bank, on the preceding events.—A glance backward.—Comparison of French foreign commerce before the Revolution and during the first thirty years of the nineteenth century.—Railroad beginnings.—Economic movement created by railroads.—Foreign trade develops.—It doubles in seventeen years.—Progressive increase of the operations of the Bank of France.—Kind of credit to be given by a bank of issue. Commercial credit.—Loans on securities.—The kind of credit a bank of issue should not give. Industrial loans.—Dangers of certain inconvertible funds for banks of issue.—Foundation of industrial loan banks (*commandite*).—The Caisse Générale du Commerce et de l'Industrie, founded by Laffitte.—Issue of sight bills to bearer and to order by J. Laffitte.—Inevitable disappearance of this concern in the panic of 1847.—Services rendered by Laffitte's bank.—Other establishments, modeled after the Caisse Laffitte.—These establishments disappear.—Causes of their failure.—Panic of 1848. Founding of Comptoirs d'Escompte by the provisional government of 1848.—The Comptoir d'Escompte of Paris and the provincial Comptoirs. Their basis.—Loans on collateral. Creation of surety companies. (*Sous-comptoirs de garantie*)—Beginnings of the Comptoir d'Escompte from March 4 to August 31, 1848.—Provincial Comptoirs.—Important fact. The general warehouses.

The Bank of France became a sole bank of issue, much more as a result of unforeseen circumstances than by reason of any consistent plan or fixed policy. Singularly enough, it was a revolutionary government which in actual fact was largely responsible for handing over to the Bank of France its complete monopoly. It was during a political crisis when the theories most subversive to capital were put forward that the directors of the Bank showed the most decision and daring. To be sure, the directors had before them the example of past panics. However, it is important, too, to take into account the moral and technical worth of the men who direct an establishment. At the time of the panics of 1846, 1847, and 1848 the governor of the Bank was Count d'Argout, who had been

nominated September 5, 1836, and remained in office until June 10, 1857. It would seem that this personage was not remarkable, at least in a business way. But he had with him a deputy governor named J. E. Gautier, who had formerly been a deputy from la Gironde and a peer of France. Gautier was very well up in affairs of credit. He had been nominated first deputy governor in 1833, and held the post until August, 1857. He published a study of the first order entitled: "Banks and Credit Institutions in America and Europe,"^a in which are found the true qualities of a banker who is thoroughly well informed in the proper duties of a bank of issue. J. E. Gautier published this study in 1839, six years after entering the Bank; without any doubt he had a predominating influence on the conduct of affairs at difficult moments.

The French Revolution was the bankruptcy of royalty much more than the bankruptcy of France itself. The state finances were in a disastrous situation, but French society, considered in its economic elements, was flourishing, although hampered by narrow and antiquated legislation. These obstacles, imposed by the ancient mould of a decrepit organization, were all the more felt because France experienced the same need of expansion that was beginning to torment the other great civilized nations of the world at that time.

As for foreign commerce, according to trustworthy estimates, it might be fixed at the end of the reign of Louis XVI at about 1,000,000,000 francs, probably even a little more. Under the First Empire, with boundaries much

^a *Des Banques et des institutions de crédit en Amérique et en Europe*, published in the *Encyclopédie du Droit*, Vol. II.

National Monetary Commission

wider, it amounted to only 933,000,000 francs. Under the Restoration, if general commerce is considered, it reached that figure only in 1825.^a At any rate during the whole Restoration period special commerce did not reach a billion. Its highest figure was 987,000,000 francs in 1829.

Let us note that the imports which furnished the country raw materials for manufactures did not equal until 1830 the total of imports of 1788; that is, 573,000,000 francs.

So it took France forty years to regain the ground that it had lost in the world's market. It is enough to tell briefly why this recovery was so slow and tedious after the terrible years of the Revolution. The reasons are:

The wars of the Consulate and the Empire, which gave little opportunity for establishing lasting international relations.

The restrictive measures adopted by Napoleon against foreign commerce (continental blockade, etc.).

The changes of government and the two invasions of 1814 and 1815.

The payment of indemnities to the allies, and the process of recovery of the country after the defeat and the struggles of the various political parties.

The ultra-protectionist measures adopted by the Restoration.

^a General commerce (*commerce général*) includes: (1) Special commerce; (2) transitory commerce—that is, merchandise which merely passes through the country. The precious metals are not included in these figures.

Evolution of Credit and Banks

In 1830 the usefulness of railroads begins to dawn and, the possibilities of the steam engine. In France the new method of transportation found many opponents. It was not until 1841 that the railroads began to have an economic effect on transportation and trade. Here is a table which shows their slow advance until 1847:

Year	Number of kilometers in operation.	Gross receipts, in million francs.	Net receipts per kilometer, in thousand francs.	Number of passengers, in millions.	Tons of merchandise, in million tons.
1841-----	573	12.9	9.3	6.3	1.0
1842-----	600	14.2	8.8	6.2	1.5
1843-----	829	21.0	13.4	7.3	1.5
1844-----	831	28.3	17.3	8.1	1.9
1845-----	880	31.9	18.8	8.8	2.3
1846-----	1,322	41.1	20.6	10.4	2.5
1847-----	1,832	65.2	22.4	12.8	3.6

It is plain that the influence of the new transportation upon the movement of merchandise was very slight, since in 1847 these railways had transported only 3,500,000 tons.^a

But the construction of these lines had brought about great business activity in the matter of borrowing capital and purchasing the raw materials necessary for the building as well as for the purchase or construction of equipment. The railroad was not only a stimulus for commerce and industry, but it was itself an industry, and one of the largest, even, in each country by virtue of the capital engaged and the horsepower of its locomotives. In other directions, through new inventions,

^a The French ton is 1,000 kilograms.

National Monetary Commission

through the increase of comfort under the Government of July (1830-1848), domestic trade was developed at the same time as foreign trade. Industry was influenced by this fact; it became concentrated; large enterprises were founded; moderate-sized enterprises consolidated in response to the new conditions of the manufacturing industry in which steam engines and power looms were henceforth the chief factors.

Here are figures giving the increase of our foreign commerce from 1830 to 1847:

[Million francs.]

Year	General commerce.	Special commerce.		Total
		Exports	Imports.	
1830.....	1,211	489	453	942
1835.....	1,595	520	577	1,097
1840.....	2,063	747	695	1,442
1845.....	2,428	856	848	1,704
1846.....	2,437	920	852	1,772
1847.....	2,339	956	720	1,676

Commerce, then, doubled in seventeen years—general commerce as well as special commerce; there was a falling off in 1847 only because of the crisis. However, the importations in 1847 and in 1846 increased because of the purchase of foreign grains during the famine. What were the principal transactions of the Bank of France during these seventeen years? The interesting point is to see the total of its yearly discounts and the discount rate. We will give merely the figures for each five years, except for the last two years, 1846 and 1847—at the panic time.

Evolution of Credit and Banks

Discount of commercial paper.

[Million francs.]

Year	Paris	Branches	Total.	Rate of discount.
				<i>Per cent.</i>
1830.....	909		909	4
1835.....	485		485	4
1840.....	932	179	1,112	4
1845.....	1,007	396	1,403	4
1846.....	1,194	431	1,625	4
1847.....	1,136	481	1,817	-----

The total of discounts in 1848 was, however, less than that of 1847, and amounted to only 1,544,000,000 francs. The average reserve, which was 145,000,000 francs in 1830, was in 1840 nearly 247,000,000 francs; in 1846, 210,000,000 francs, and fell in 1847 to 122,000,000 francs, then went up in 1848 to an average of 176,000,000 francs.

As for notes in circulation, their averages were: In 1830, 223,500,000 francs; in 1840, 223,500,000 francs (the same figure); in 1846, 271,000,000 francs; in 1847, 251,000,000 francs; in 1848, 342,000,000 francs.

The signs of an increasing economic movement were not lacking. However, the Bank of France, a bank of issue, gave and could give in that period of industrial and commercial growth nothing but so-called commercial credit, discounting commercial paper having a maximum maturity of three months. A bank of issue, which must always redeem its notes on demand, would be taking risks if it immobilized or rendered inconvertible its capital in other uncertain operations. There is, indeed, one other operation, that of loans on securities, but here everything depends on the nature of the securities and the sum loaned

National Monetary Commission

in relation to the quoted value of the security on the Bourse. This operation may be a good one, or it may serve as a pretext for very risky transactions, for there is a tendency here to tie up capital if the security deposited as collateral has not a current value on the stock market and can not be easily sold or realized on if need be.

Therefore, a bank of issue can only make advances on securities of recognized value, which are not likely to depreciate easily. In reality, a bank of issue must not and can not finance (*commandite*) industrial enterprises; that is to say, lend capital, in any form whatsoever, to create or transform an industry. This kind of operation demands many months and even years, usually, to give results. Meanwhile, the capital is tied up, and can not be used in case of need to redeem the bank notes, which should above all represent (1) either specie in the vaults, (2) or commercial discounts which can be speedily converted into money, or, finally, (3) negotiable securities, but for small sums only.

Also, when banks of issue hold government securities to represent their notes, they have in reality nothing but inconvertible funds. For, in case of a panic, they would hesitate to flood the market with a quantity of these securities all at one time; securities or government stock would depreciate as a result of being offered suddenly, thus diminishing the credit of this particular Government, most probably, too, at a moment of political crisis or war, exactly when the State needed all its credit.

The Bank of France did not depart from this line of conduct. If in 1848 it helped industry to some extent during the panic, it was with prudence.

Evolution of Credit and Banks

There was a lack, therefore, of credit concerns in France to aid the progress of industry in general, and the railroad industry in particular.

Several of these concerns were founded under the pressure of surrounding circumstances. People began to realize vaguely that new economic conditions were demanding new forms of credit. But it will be seen that these establishments, although they were useful, were not fitted for the part they were supposed to play.

One of the most important of them was the one called the *Caisse Générale du Commerce et de l'Industrie*, founded by Jacques Laffitte, who for a long time had had a commercial bank, and then had been ruined by engaging in politics. He then gave up public affairs and worked to found a bank of a new kind, intended to aid industrial development.

Like all the concerns of this kind founded then, it was chartered under the form of a limited liability stock company (*société en commandite par actions*), since the Council of State was unwilling to charter banking concerns under the form of joint-stock companies. The *Caisse Générale du Commerce et de l'Industrie* opened its offices October 7, 1837. Its nominal capital was 55,000,000 francs; the capital paid in was only 15,000,000 francs, itself a very large sum for that time. The foundations of this credit concern were very broad, too broad even, for it was to engage in all kinds of financial operations, take all kinds of risks. This was a new idea, and demanded a well-defined and rigorous method of procedure—the use of its own capital to the exclusion of deposits in running

National Monetary Commission

accounts, which are too mobile to be used for backing up and financing industries. This house made discounts and collections, received running accounts, made loans on securities, and advanced funds for silent partnerships in industrial enterprises, handled state loans, etc. In spite of the monopoly of the Bank of France, Laffitte also wanted to issue a sort of credit paper of his own, with a view to aiding the operations of his house. To get around the difficulty, he decided to issue sight bills to bearer and to order. As for time of maturity, there were several kinds, such as five, fifteen, and thirty-day notes. These bills bore an increasing interest, according to the length of time of maturity. They could not circulate except with an indorsement in blank. For interest-bearing notes, the interest to date was added at each transfer.

This circulation was neither as simple nor as quick as that of the bank note proper, but because the notes were interest-bearing they were readily accepted. In 1837-38 the total issue of this paper went beyond 60,000,000 francs^a. It fluctuated afterwards, until 1843, between 35,000,000 and 58,000,000 francs. Laffitte died in 1844 and was replaced by three managers. From this time the issue rose to 80,000,000 francs. In 1847 the Caisse Générale du Commerce et de l'Industrie ceased operations, being ruined by the panic. This was a natural result, given the method pursued and the multiplicity of risks incurred by the bank.

Nevertheless, it had been useful. In 1837-38 the number of bills discounted was 220,000, representing a sum of more than 276,000,000 francs. These figures grew larger

^aThe average circulation was about 15,000,000 francs.

Evolution of Credit and Banks

and in 1844, the year when Laffitte died, the number of bills discounted was 476,000, making a total of 358,000,000 francs.

The *Comptoir Général du Commerce*, called the *Caisse Ganneron*, was founded April 17, 1843; then the *Caisse Centrale du Commerce et des Chemins de fer* was organized with a capital of 7,500,000 francs, under the management of M. Baudon. Still others, the houses of Béchet, Dethomas & Co., with a capital of 15,000,000 francs, and Cusin, Legendre & Co., with 2,000,000 francs capital, followed this movement, etc. All these banks suspended payments in the crisis of 1847. We have told what a panic burst out in Paris and the provinces as a result of their sudden decision to close their doors.

In reality these banks, some of which negotiated railroad securities, should not have made discounts, received deposits from merchants, or consented to open running accounts; they had another mission to fulfil with the capital belonging to them. The crisis would scarcely have affected them at all if they had kept within the limits of the functions for which they were intended, and which were to be especially assigned to them later.

We have said above that the greater number of the Paris bankers had suspended payments during the panic of 1848, so that there was no longer any intermediary between the Bank of France, which accepted only securities with three names, and the commercial public. Now, the third name had been added by the intermediary banks. The provisional government, ten days after the revolution of February 24 had put it in power, hit upon the idea of founding a *Comptoir d'Escompte* in Paris. The

National Monetary Commission

decree establishing the Comptoir is dated March 4. This concern was to be called the *Dotation du Petit Commerce*. On March 7 a decree was passed creating discount banks (*comptoirs d'escompte*) in all the industrial towns of France.

The basis of all the comptoirs d'escompte established in France in 1848-49 is the same. Their capital was to be formed by the cooperation (1) of private individuals, (2) of the State, (3) of the municipalities; each to furnish a third of the required capital. The first third was to be entirely paid by private individuals (shareholders); the second third, furnished by the State, was represented by Treasury notes; the completing third by municipal obligations. In addition the State gave the greater part of these comptoirs a loan of specie, which was to bear interest at 4 per cent. As a matter of fact, these loans were mostly paid back by the end of three years. The comptoirs accepted bills on longer time than the Bank of France; they had a maximum maturity of one hundred and five days;^a the comptoir at Lyons allowed only forty-five days.

As may be seen, the State and the municipalities furnished guaranties by their securities: Treasury notes and town obligations; the State even loaned funds; and yet the State stipulated no profits either for itself or for the towns. The profits were to accrue implicitly and entirely to the shareholders—a singular proceeding, truly, for a popular Government which had come into power for the express purpose of combating the financial oligarchy of the Government of July. This may well seem a paradox.

^a This extreme limit, fixed by the decree of March 7, was disregarded by certain comptoirs, the one at Metz went so far as to accept 150-day paper, and the one at Nancy 180-day paper.

Evolution of Credit and Banks

The duration of the Paris Comptoir was limited, it is true, to three years. It was, according to the intention of the Government, a transition measure.

The capital of the Comptoir de Paris—capital paid in by shareholders—was got together with difficulty in the midst of the panic. People bought the shares as they would lottery tickets, and the first shareholders were insurance companies, the association of notaries and attorneys, and charity organizations. Only about 1,587,000 francs could be collected, and the State gave a subsidy of 1,000,000 in addition to its third, making a little more than 2,500,000.

But it soon became necessary to extend the operations of the Comptoir which, according to its principle, was to make discounts and collections only. The crisis was acute and there was a demand for loans on collateral also.

By the decree of March 24 this sort of loan was intelligently organized. *Sous-comptoirs de garantie* were instituted. These sous-comptoirs loaned on pledges of merchandise, on storehouse warrants, and finally on certificates and securities. Their capital was furnished entirely by private industry. There were seven of these sous-comptoirs in Paris, as follows: (1) The Comptoir of the Book Trade; (2) the Comptoir of Metals; (3) the Comptoir of Builders and Contractors; (4) Comptoir of Colonial Commodities; (5) Comptoir of Dry Goods; (6) Comptoir of Textiles; (7) Comptoir of Railroads (founded 1850).

Until August 31, 1848, these sous-comptoirs had presented to the Comptoir d'Escompte bills valued at only a little more than 58,000,000 francs.

National Monetary Commission

As for the Comptoir itself, it had made the following transactions up to August 31:

	Francs.
Discounts on bills.....	80,378,326
Discounts on warrants for merchandise.....	6,924,166
Collections.....	15,904,956
Rediscount of commercial paper at the Bank of France.....	59,389,215

In the provinces the number of comptoirs was 67 in the beginning, with a total nominal capital of 130,500,000 francs. In reality, the capital subscribed and paid was somewhat more than 25,000,000 francs. The State subsidies amounted to a little over 10,000,000 francs, giving an actual working capital of 35,000,000 francs.

These comptoirs, with this limited capital, did in three years the following business:

Year.	Number of comptoirs.	Total amount of bills discounted (million francs).
1848.....	65	343 6
1849.....	62	346 2
1850.....	61	371 8

These comptoirs came into existence through special circumstances. They had been established in an abnormal way, with particular advantages. These advantages were destined to disappear together with the needs which had caused them to be granted. In June, 1853, a decree brought the comptoirs under the common law. Twelve of them in the provinces were reorganized either as joint-stock or as limited liability companies (*sous forme de commandite*). The Comptoir d'Escompte of Paris was reorganized in 1854. We shall study it later. It is, in

Evolution of Credit and Banks

fact, through the development and various phases of this institution that we shall follow the evolution of credit in France.

It was to the provisional government of 1848 that was due the establishing of general warehouses in Paris and the principal cities of France. (Resolution of March 26, 1848, confirmed by the decree of August 23, following.) For the first time the French Government took measures relating to those institutions which were to make easier in the future collateral loans, by means of warrants or receipts of goods in storage. This was a measure fertile in advantages for the commercial credit of France.

PART II.

THE BANK OF FRANCE—THE CRÉDIT MOBILIER—
THE FIRST COMPTOIR D'ESCOMPTE, 1848-1875.

INTRODUCTORY.

We now enter upon a new phase of credit in France. Industrial progress, especially that in railroad construction; the extension of commerce, in spite of political events; the future so full of promise from the economic point of view, thanks to new discoveries; the ease with which capital has already been collected for railroad construction; the fact of the existence of a single bank of issue which recommends itself to the majority of people of the period; the trend of public opinion toward industrial and commercial enterprises under the impulse of certain new theories, especially the doctrines derived from St. Simon; the attainment of universal suffrage, which, it was believed, would be the end of all revolutions; this sum of financial, economic, and political events created a new atmosphere, a new environment.

The Bank of France continued its rôle as a bank of issue in a prudent enough manner; it fortunately continued to be much more a bankers' bank than a state bank, although it had frequent relations with the State and rendered it real services. In spite of its being on a smaller scale and having much less importance than it was to have later (i. e., a few years after 1870, when credit

National Monetary Commission

societies are widening their scope), it was already the center of relief in case of panic, and the support on which rested the whole system of French credit. Circumstances made it thus, without any preconceived theory; and it turned out to be the point of departure for the present organization of credit in France. You might conceive of another organization perhaps better; this one is the result of the historical evolution which we are trying to set forth. Furthermore, during this period, between 1848 and 1870, the Bank of France did not deviate too far from its fundamental attributes as a bank of discount. Although it allows collateral loans, which began to increase very perceptibly from 1852 on, it did not enter into the dangerous path of either the direct or indirect *commandite* of industries. Hence came as its reward in 1867 the renewal of its privilege almost up to the end of the century (end of December, 1897).

But in this function which it ought not to fulfil, which it does not fulfil, of entering as a silent partner into industries or of favoring their creation, other institutions are going to take its place. These will not undertake, as did Laffitte or Ganneron or certain others (whose attempts and relative success we have already seen), to practice all kinds of banking operations together—discount, collections, silent partnerships, etc.; but they will involve themselves in speculation without preliminary study, without taking into account the true vital conditions, which banks of this kind should conform to in order to live. So we are going to witness the collapse of the bank which sums up their aspirations and faults: the *Crédit Mobilier*.

CHAPTER I.—*The Bank of France the sole bank of issue—Its operations with the State—The founding of institutions called “Haute Banque”—Industrial loans and speculation—The Crédit Mobilier and the Pereires.*

Liquidation of the panic of 1848.—The credit of the Bank's notes.—Renewal of the privilege of the Bank up to 1867.—Widening out of the list of securities admissible as collateral on loans.—The Bank widens the scope of its operations.—Changes in the rate of discount.—Revival of business under the influence of four reasons.—The Crimean war interrupts this boom, 1855. Rise in the discount rate.—The right remedy.—A wise measure.—Buying of specie by the Bank, 1855–1856.—Renewal of the charter of the Bank of France (law of June 9, 1857). New conditions.—Increase of capital.—Loan to the State.—Fifty-franc notes.—The result of small bank notes.—The Bank's freedom in regard to discount rate.—Establishment of branch banks.—The great panic of 1857.—Measures taken by the Bank.—Discount rate proportioned to the length of terms of payment.—Reaction after the panic.—Operation called “high finance.”—Loans on securities previous to sale.—Ample credit of France at this time.—The creation of capital by saving.—Characteristic facts regarding the elements of French finance.—Number of issues of railroad bonds sold by the Bank.—Dangers of such precedents.

After the great crisis of 1848, which was above all, a political crisis—although the political situation still gave some cause for alarm—public opinion, on top of this rough shaking up, as often happens under similar conditions, looked on the future with greater confidence. When order was reestablished after the days of June, a reaction set in. There was indeed a panic in 1851 at the time of the coup d'état, but it was not, as in 1848, a sudden and unexpected change. The event, besides, had been discounted by the business world.

Meanwhile, business was slack in consequence of the panic which had followed the economic crisis of 1847. The Bank was anxious to carry on business, and all the more because its capital, on account of its absorption of

National Monetary Commission

the departmental banks, had increased from 67,900,000 francs to 93,250,000 francs. Because of this, too, its maximum limit of circulation, which was 350,000,000 francs, was raised to 452,000,000 francs. It liquidated its dishonored bills rather successfully.

During the year 1848 it lent rather large sums to the State, directly by opening subscriptions for the loan, likewise to the cities of Paris and Marseilles, to the Department of the Seine, to the hospitals and asylums of Paris and of Lyons. Here are the figures:

Mar. 31:	Lent to the State without interest on treasury certificates.....	Francs. 50,000,000
May 5:	Lent to the Bank of Deposits and Consignments on transfer of government securities.....	30,000,000
June 3:	Opening to the State of a credit of 150,000,000 of which the State took.....	50,000,000
July 24:	Subscription to the state loan.....	22,000,000
	Lent to the city of Paris, to Lyons, to the Department of the Seine, etc.....	20,000,000

Finally, the Bank going beyond its usual functions, had lent to different metal works about 34,000,000 francs on mortgages in order to enable them to execute the orders given them by the railroad companies. For all these operations, the Bank issued a much larger number of notes, especially in 200 and 100 franc denominations. Soon commercial discounts worked easier in private banks, and calm succeeded this storm in which panic—an evil counselor in this special case—had been the chief cause of the trouble.

To sum up, the Bank of France managed very skilfully in this difficult time, and was able to clear up this situation most honorably. Its notes suffered no depreciation during these disastrous months.

Evolution of Credit and Banks

It may be said that on this occasion the notes of the Bank went through the test of fire, and so from that moment forth they enjoyed unquestioned credit; and to such a degree that when quiet was restored, and when coin minted in large quantity that year was very plentiful and the Bank's reserve was very high, the public preferred the notes—although they had forced currency—to specie, and that toward the end of 1848. This explains why a law authorized an increase in the amount of issue from 452,000,000 to 525,000,000 francs. The Bank, besides, had very skilfully resumed specie payment as soon as it could at the end of 1848. Forced currency was suppressed by law on August 6, 1850.

The following years can scarcely be said to have any history.

Here are the average figures relating to reserves, issues, and the figures relating to the total discounts during the years from 1849 to 1853:

[Million francs.]

Year.	Reserve (average).	Notes in circulation (average).	Total discounts (average).
1849.....	350.4	421.7	1,028.3
1850.....	457.8	485.6	1,171.1
1851.....	596.6	530.3	1,247.4
1852.....	584.8	621.2	1,840.1
1853.....	452.8	659.8	2,854.2

The average reserve, therefore, increased from 1849 to 1852, then it decreased, and we have to wait until 1859 for it to reach 570,000,000 francs. As to issue, it had a general tendency to increase without much fluctuation. The average of notes issued in 1851 was less than the reserve.

National Monetary Commission

At one time in that year, October 2, the reserve reached 626,000,000 francs, and for a few days it exceeded the circulation by 110,000,000 francs.

On March 3, 1852, a decree renewed the charter of the Bank up to 1867, and this same decree authorized it to make loans on the shares and bonds of French railroads. A few days after, the decree of March 22 gave it the same authorization for the bonds of the city of Paris.

That was necessary, for the Bank needed to extend its operations in order to utilize its power of issue. Besides, it had a large reserve; indeed, the average reached in 1852 nearly 585,000,000 francs. Furthermore, railroad securities had become widely distributed in the hands of the public.

The Bank, or at least its directors, understood that new times require new methods. They changed the rate of discount, which had remained fixed for thirty years, except in 1848, when it was raised to 5 per cent. They lowered it for a certain time in 1852 and in 1853 to 3 per cent. They made it vary oftener, according to the needs of the money market, and they showed themselves alive to the real spirit of banking. But they became really free in their movements in this matter only when, as a result of the law of June 9, 1857, there disappeared, as far as the Bank was concerned, the absurd limitations on the rate of interest fixed by the laws against usury.

Business picked up at this time for several reasons: (1) Because, the form of government in France being definitely settled since 1852, public opinion was reassured; (2) because the Bank of France had made the conduct of

Evolution of Credit and Banks

its affairs more flexible; (3) because at that time two institutions were founded destined to give a stimulus to business—the *Crédit Mobilier*, which we are going to take up, and the *Crédit Foncier*, the development of which we shall examine in another section of this work; (4) finally, because the *Comptoir d'Escompte de Paris*, which was destined to be merely provisional, because it was founded during the crisis of 1848 to take the place of the banks whose failures had left such a great void, now gradually freed itself from state control, rendered real services to the middle-sized and small trade, and became an important banking house, devoting itself especially to so-called commercial operations. It is important, furthermore, to keep in mind a cause that had been active for the past twelve years—the extension of railroads. At that time, in 1853, more than 4,000 kilometers of railroads were in operation, supplied with more than 1,200 locomotives. Now, these railroads were destined to double in seven or eight years.

It seemed as if business would go on growing in this way, when the Crimean war broke out. This war necessitated large loans, which rose to about 1,540,000,000 francs. That diminished capital on which industry and commerce were making urgent demands. The Bank raised the discount rate to 5 per cent, then to 6 per cent. Its reserve fell in November to 211,000,000 francs, while its discounts were in October 480,000,000 francs—that is to say, double what they had been at the same time in 1854. The Bank then lowered to seventy-five days the limit for payment of the bills it discounted. In 1856 it extended the limit to ninety days and lowered the discount rate to 5 per

National Monetary Commission

cent; but these measures were not kept up in the face of the events that followed.

Matters were hastening to a climax. Precious metals became more and more scarce. In November, 1856, the reserve fell to 164,000,000 francs, and discounts rose to 520,000,000 francs. The cause was the war, which in pay and food for the army had absorbed specie estimated at about 800,000,000 francs. Adding to this other causes for the exodus of capital, we find that at least 1,000,000,000 francs went out of the country.

Was the remedy to raise the rate of discount and shorten the time of maturity on bills? To a certain extent, yes. But as in this case a sudden export of about a third of our metallic stock had taken place, the Bank should have turned its attention to getting back this lost stock. And it did. It bought 254,500,000 francs in specie, which cost it, with the premium and transportation, $1\frac{1}{2}$ per cent. This happened in 1855. In 1856 it imported 560,000,000 in specie, which cost it $1\frac{1}{3}$ per cent.

It was easy to foresee that the privilege of the Bank of France would be renewed. It was to expire in 1867, and the law of June 9, 1857, prolonged this privilege to December 31, 1897. This law doubled the Bank's capital by the issue of 91,250 new shares, which were assigned to the holders of the old shares. This doubling of the capital, which had become too small for the Bank's increasing business, was a safeguard. The capital then reached 182,500,000 francs.

Evolution of Credit and Banks

But out of the increased capital, 100,000,000 francs during the year 1857 had to be turned into the public treasury, which gave the Bank in return government 3 per cents at the very high price of 75 francs. The State made a good thing by it. In reality these 100,000,000 francs were used to diminish the debit balances of the Treasury and helped reduce the figure (which was very high, as it happened) of the floating debt.

The Bank was authorized to issue 50-franc notes. An excellent innovation in principle, but the Bank only used this privilege in 1864, seven years later. Now, in times of panic this kind of notes, like those of 100 francs, economizes coin in current transactions; and in prosperous times, as they are easier to handle than specie, these small bills tend to replace specie in circulation and force it back into the coffers of the bank of issue. Scotch banks which have issued and are still issuing notes for one pound sterling have seen all the metallic money of the country flow into their coffers.

This law of June 9, 1857, gave the Bank the right of raising the interest rate as much as it judged necessary, whereas before it could not exceed 6 per cent. It took advantage of this liberty soon after. But the Bank of France alone had this advantage by law; other banks were not authorized to do likewise. It is true they went beyond their right without being disturbed.

Finally, ten years after the law of 1857, the Bank could be compelled to establish branches in the departments where they did not exist. The Bank was in no hurry to

National Monetary Commission

found these branches. In 1867, although ten years after the law, 25 departments were still unprovided for.

The panic of 1857 began in the United States. We shall not enter into the details of its origin and development, but content ourselves with merely indicating two of its causes—one has to do with our subject, the other with the commercial relations of North America and Europe in 1857.

The first of these causes is that many American bankers had advanced money, made loans to industries, especially to railroads, out of their deposits. They had thus tied up capital, and when the panic came they did not have the free funds that they would have had if they had used their capital in short-term business, such as commercial discount. The truth is there was over-speculation.

The second of these causes—for panics, especially large ones, always have several causes—was that Europe in 1857, thanks to an excellent harvest, did not buy grain of America. So the United States did not export any to the Old World. Hence the rate of exchange was unfavorable to America, and the United States was obliged to send specie over to pay for its importations, from London, Germany, etc.

The panic was terrible in September. Its reaction was felt most of all in England, then in Germany, and to some small extent in France. In this latter country especially people felt the hard times, which affected London and the principal business centers of northern Germany.

Evolution of Credit and Banks

Now we have to concern ourselves here only with what happened in France and with what the Bank did to meet the crisis.

The Bank of France took the standard method; it raised the discount rate. At the beginning of October it raised the rate to 6 per cent; on October 13 it raised it to 6.5 per cent; on October 21 it raised it to 7.5 per cent; finally, on November 11, it was fixed at 10 per cent.

The Bank of England had reached that figure on November 10. The Bank of France devised a rather ingenious plan. It made a scale of three rates 1 per cent apart, in proportion to the time to run until maturity, and it continued to apply this system until December 20. It did not try by other means to diminish discounts, and from the very start it calculated what the extent and the duration of the crisis in France would be. So, as early as December 21, it returned to the 6 per cent rate established at the beginning of October.

As usually happens in like cases, there was much unemployed capital after the panic—business was slack. In 1858 the average reserve in the Bank rose to 460,000,000 francs, a figure which had not been reached since 1853. In 1859 and 1860 the same thing was true, as appears from the fact that the average figure of the reserve went up to 570,000,000 francs in 1859 and in 1860 to 513,500,000 francs; the average balances due to individuals on running accounts, which before had been fluctuating around 150,000,000 francs, rose, during these two years, to 237,000,000 and 209,000,000 francs, respectively, a sign of business depression. The same phenomenon may be

National Monetary Commission

observed on the eve of crises. Capitalists, witnessing great speculations and large business enterprises and foreseeing a setback, keep their capital in reserve. This takes place especially in France.

THE BANK OF FRANCE DISPOSES OF SECURITIES (1858-1861).

Up to this time we have seen the Bank for the most part occupied only in commercial banking—discount, loans on conservative securities, transfers, and of course the issue of bank notes. When it has engaged in making advances or loans which did not really enter into the business of commercial banks, it has been because it was dealing with the State, to which it owed its charter. But at the time we have now reached the great railroad enterprises had got well under way; they saw how bright their prospects were for the future. So they began looking around for capital to extend the half-finished systems, to finish the important lines, to better their equipment and organization. This very busy period in France—which was busy, too, in other countries—extended from the revolution of 1848, or rather from the election of Prince Napoleon as President of the Republic, almost to the end of the Empire.

There was no lack of capital for railroad undertakings in France at this time. France, which has been called the land of the “woolen stocking,”^a because of its characteristic thrift, could easily furnish all the resources needed for railroad construction and operation. However, the companies did not then, as now, call upon the public directly;

^a This expression comes from the use made of woolen stockings as purses for hoarding money in the country.

Evolution of Credit and Banks

and they did not sell bonds at all their ticket offices. They had recourse to intermediaries. For five years past the Société Générale du Crédit Mobilier (founded in 1853 by the Pereire Brothers and which we shall discuss later) had already been undertaking operations in “high finance”—marketing of securities, silent partnerships in industrial companies etc. Was it the example of this company which induced the Bank of France at that time to follow the same course? It is rather difficult to say. It really issued securities in 1858, either in its central establishment in Paris or in its branch banks. And it did not do so cautiously in its capacity as simple intermediary, contenting itself with being only an intermediary, selling on commission; it advanced before any sale a rather large sum on the obligations it was to dispose of. This advance amounted to 100,000,000 francs at a time when the proceeds of the marketing of bonds of eight companies—the Mediterranean, Dauphiné, Midi, Geneva, Orléans, West, East, and Ardennes—were to amount to about 246,000,000 francs.

In 1858 it sold in this way 617,766 bonds at an average price of 276.60 francs. It had left 272,769 bonds, which it disposed of by subscription and with great success. They rose in Paris to 562,298 and in the provinces to 424,589, making a total of 986,887.

The price of issue was 274.50 francs. During the remainder of the year 1853 the Bank adopted the method of selling which it had used at first and began to sell a great many bonds over its own counters and those of its branches; but the price of these bonds had gone up more than 10 or 12 francs.

National Monetary Commission

It disposed in this way of 881,952 bonds for 287.50 and 288.75 francs.

New sales, this time by subscription, were made in 1860 and 1861. This method facilitated the sale and the rise in price of the bonds. One can estimate from what then happened France's power to save and accumulate capital. Thus in 1860 the Bank offered to subscribers a much larger number of bonds than formerly, no less than 1,023,000. The subscription rose to 1,627,817 bonds.

They were issued at the price of 292.75 francs. In 1861 there was a new offer by subscription of 786,000 bonds. The public rushed in; the issue was subscribed for almost four times over. More precisely, bids were sent in for 2,972,449 bonds.

These facts show what are the elements at the basis of French credit to-day, and how, by the very nature of things, France has been led to adopt it.

Indeed, not only did large capitalists take up these bond issues, but the mass of middle-sized savers. And it is because of these middle-sized and, later, small savers, who create and supply the great bulk of capital in this country, that the institutions of credit have been obliged to regulate their progress in a conservative way, because their depositors and a large number of their clients have themselves the inborn prudence of all those who, possessing only a little capital, do not wish to run any risks with it.

At any rate, during these four years the Bank of France invested in this way for the benefit of the eight companies which we have mentioned an actual, fully paid cash capital of more than 1,200,000,000 francs.

Evolution of Credit and Banks

This sum, a large one at that period, did not bring about a lower price for the bonds. The public had from that time forth a field for its investments. The Bank of France realized splendid profits in these operations. People have asked if it ought to have done so, if it conformed to its statutes in thus engaging in the business of marketing securities. There were, even among its directors, men who criticised, while excusing, these operations in high finance. In order to explain the conduct of the Bank of France at this time, people have said that the circumstances were exceptional; then the convention of 1859 with the railroad companies had given them the special help and warrant of the State. The Bank was on too good terms with the Government not to allow itself to indulge in operations which were unusual, but profitable, to it. Nevertheless it is best not to let a bank of issue create a precedent of this sort; for taking its point of departure in this first evasion of its statutes, it might later give itself up to operations of that kind, dangerous and uncertain to the last degree for a bank of issue.

CHAPTER II.—*The Société Générale du Crédit Mobilier and the Pereires (1853-1866).*

St. Simon's teaching. Its influence on developing business in France.—The Pereire brothers. The part they took in creating the French railroad systems.—Creation of the *Crédit Mobilier* 1852. Its right to issue bonds. Useless restrictions. No censorship.—Aim of the *Crédit Mobilier*. Its contemplated scheme.—The principle of action of an investment and speculative bank.—What the *Crédit Mobilier* did during its first years. Services rendered. Its aid in railroad construction.—Large profits.—Difficulties caused by an enormous dividend.—Decline after 1855.—Grandiose and dangerous ideas of its founders.—The plan of issuing a single type of bonds.—Uncertain guaranties of the issues.—Spread of the system to foreign countries.—No relations between the issues of bank notes and the issues of *crédit mobilier* bonds.—Note on the institution of M. Mirès.—Trial of strength against the *Crédit Mobilier*.—The *Société Générale pour favoriser le développement du Commerce et de l'Industrie en France*.

The year 1852 was a remarkable one in the development of a credit organization in France because of the founding of two dissimilar institutions, each answering to distinct needs: the *Crédit Foncier*—which made a specialty of giving credit on mortgages—and the *Société Générale du Crédit Mobilier Français*.

This latter institution of credit was founded by Émile and Isaac Pereire. They were brothers from Bordeaux and came when quite young to Paris. The elder was a stockbroker at first, the other an accountant in a bank. Isaac got acquainted with St. Simon, the famous head of the school to which has been given his name, and was a disciple of the master. He influenced his brother Émile who, in 1830, went into the offices of the *Globe*, a newspaper of St. Simon's. In 1831 both brothers went over to the *National*, and soon separated from St. Simon. But from their connection with him they imbibed the general ideas of his school regarding the future and development of industries.

The ideas on an industrial civilization destined to take the place of warlike and priestly civilization opened up new paths to many thoughtful young men. Many of them gave up the theoretic and in some sort religious side of St. Simon's teachings to enter into business. Most of them were successful. They went especially into the new industry of railroading. One of them, Talabot, succeeded another St. Simonian named *Enfantin*, as director of the *Paris-Lyons-Mediterranean Company*. The first enterprise undertaken by the Pereire brothers was the railroad from Paris to St. Germain, begun in 1833. The capital of 5,000,000 francs was furnished by the houses of *Rothschild*, *d'Eichthal*, *Davillier*, etc. Later the two brothers started the Northern Railroad. Soon after Émile Pereire became manager of the *Paris-Lyons Railroad*. He obtained the concession for the railroads of the south, together with the canal parallel with the *Garonne River*. In, brief, the Pereire brothers played a very important part in the creation of French railroads.

But their most famous achievement was the *Crédit Mobilier Français*, whose firm name was *Société Générale du Crédit Mobilier Français*. Since that time it has been called simply *Crédit Mobilier*.

The *Crédit Mobilier* was founded with a capital of 60,000,000 francs, divided into shares of 500 francs each. The charter of its foundation is dated November 18, 1852. The subscription for shares was made by series of 400,000. The first subscription gave the right to the second, share for share; in the third subscription the subscribers to the first two series benefited in the proportion of one new share for two old ones; these two old shares could belong

National Monetary Commission

either to the first or second series or to both. This scheme was not a new one, having been used by Law.

This society had obtained the right to create obligations for a sum equal to ten times its capital, namely, for 600,000,000 francs. Only one restriction was imposed, and that, moreover, a rather hard one to enforce. The society was not allowed to have in its liabilities a total sum of more than 120,000,000 francs, that is, double its capital, in the form of deposits in current accounts and of obligations payable in less than a year. An important fact to note is that no "council of censorship" was created for this joint stock company. There was no general supervision. Why? Perhaps they had purposely forgotten this machinery, which might have been considered as an awkward check, if it really worked, and as a useless device if it merely registered tamely the wishes of the board of directors. Now, in a joint stock company, supervision is indispensable and it must be exercised as far as possible by independent men, without hindering the progress of the company. What, then, did the founders of this new institution of credit aim at? Its principal founder, Isaac Pereire, defined its object thus: The *Crédit Mobilier* is at one and the same time (1) a society engaging in *commandites*; (2) a financial society; (3) an investment bank for lending and borrowing; (4) a bank of issue.

As a society engaging in *commandites* it had to put its resources and its credit at the disposal of important industries and use them to promote large enterprises which it backed and helped to direct.

Evolution of Credit and Banks

As an investment bank for lending and borrowing, it had to negotiate loans and investments, whether in regard to public credit or industrial credit; it made its intervention felt whether by opening subscriptions for loans or by lending directly, or else by marketing the obligations of different companies, or by operations on the Bourse: "Carry-overs," purchases, sales, etc.

As bank of issue, it had to issue its own obligations representing securities of every kind: state funds, bonds of industrial companies, etc., in which it was authorized to trade.

It was a delicate matter to undertake these operations. Speculation is useful, and banks of this sort are indispensable in the modern credit organization of a country. But it is of great importance for these operations to be carried on with the private capital of the bank that undertakes them. To issue bonds representing securities in the bank's possession is to call upon the general public to put money into enterprises difficult to learn about and judge wisely. Such capital is the vanguard in industrial enterprises and it runs great risks. It is true that because of these risks it makes large profits possible. Then, too, this credit society with its speculative operations, and founded as it was without any adequate system of supervision, was absolutely sure to make mistakes.

During the first year, 1853, it carried through the following transactions:

1. Subscriptions to the state loan of 250,000,000 francs for the Crimean war.
2. Marketing of bonds of the railroad companies of the South, the East, and the Grand Central.

National Monetary Commission

3. Marketing of the bonds of the Crédit Foncier.

4. Loans on "contangos" on the Bourse which made the interest rate on these "contangos" drop from 12 per cent to 3 per cent.

That year it declared dividends equal to 13.4 per cent on the paid-in capital.

The second year, 1854, it continued its business as a financial society; it offered to take up a quarter of the state loan of 500,000,000 francs for the Crimean war; it advanced to the stockholders of the railroad companies (who were to pay for their shares in instalments) the sums needed to meet the successive payments. It also marketed railroad bonds. But it began to play on a very large scale its part as a society engaging as silent partner in great industrial enterprises.

It patronized a real estate construction company—the *Compagnie Immobilière de Paris*—especially founded to lengthen the Rue de Rivoli, and to cooperate, while making profits, in beautifying Paris.

It created a maritime or navigation company, with schemes for foreign commerce, colonization, and armament.

Its directors founded the Austrian Railroad Company. France began from this time on to carry its credit and some of its capital to foreign countries.

The year 1855 marked the summit of success and power of the Crédit Mobilier. It continued to give very substantial help to French railroad companies. It marketed their bonds; but also underwrote their loans, advancing in this way 18,000,000 francs in return for 65,000 bonds to the Western Company, which had been formed by a merger

Evolution of Credit and Banks

with several small roads. In 1854 it had helped to incorporate into one company several different companies which managed the omnibuses in Paris. In the same way it brought about the merging of all the gas-lighting companies of Paris.

The part the company played in regard to railroads was excellent. Thanks to the Crédit Mobilier, the railroads during the years from 1855 to 1857 were able to go on with their construction work, in spite of the latent crisis caused by the Crimean war, and the constant calls on public credit made by the State, which in 1855 negotiated a third war loan of 750,000,000 francs.

This year, 1855, was very productive, and one might say very prosperous for the Crédit Mobilier. The profits amounted to no less than 28,000,000 francs. The directors tried to use a portion of the dividend, and instead of paying it all, to give only a fraction of it to the shareholders in order to avoid an unusual rise in the price of shares. But this arrangement had to be abandoned on the advice of the Government, and 40 per cent on the shares was distributed as dividends.

In 1856 the Crédit Mobilier turned its efforts to foreign countries, especially to railroad enterprises. It was interested in Austrian, Russian, and Spanish railroads.

From 1855 on, the reports of the Société du Crédit Mobilier became much less detailed and explicit. Its decline was beginning. This society sought too much after concessions and monopolies and only rarely took part in affairs which had no political connections. It turned its attention especially to privileged companies, such as railroading, navigation, or general transportation

National Monetary Commission

in cities. From another point of view it was too anxious to subscribe to state loans. Its head men, it seems, were, moreover, on excellent terms with the public authorities. That led the *Crédit Mobilier* to take part in the operations we have already mentioned, of a real-estate company working to beautify Paris. The *Crédit Mobilier* tied up a lot of capital in this undertaking. In its balance sheet of October 31, 1857, it carried a credit in its favor of 80,000,000 francs against that real estate company.

The *Crédit Mobilier* was not able to carry out the first intention of its founders in regard to issuing notes as they had wished. Their desire would have been to issue a single type of bonds representing all the securities quoted on the Bourse. This special type of bonds would have presented only a difference relating to the terms of payment. Some, short dated, would have corresponded to the temporary investments of the society; the others, long dated, would have been equivalent to the securities which the society had successively acquired and which had no set terms of payment, such as state funds and industrial shares. The single type of bonds was to have the advantage of facilitating business on the Bourse, and was 'to "assume the characteristics and play the rôle of paper money," as the founders of this institution expressed it.

The danger of such operations is patent. It is issuing on an issue. In such an emergency how could the public be assured that the industrial or other values represented by the *Crédit Mobilier* bonds really stood for industrial wealth, such as raw materials, machinery, factories, mer-

Evolution of Credit and Banks

chandise? How could this same public know if these industrial values would earn revenues to pay interest to the holder of *Crédit Mobilier* bonds? Further, admitting that the very difficult management of such an institution, working under such risky conditions, had been the best possible, it would have been necessary that the capital securing these operations should amount to more than that of the *Crédit Mobilier*, which was 60,000,000 francs. Now, as we know, its founders would have liked to issue 600,000,000 francs in bonds. A capital of one-tenth of that, certainly, was not enough to cover the risks of decline and especially of intrinsic loss in the securities owned by the society. In any case this capital ought to have been invested safely and in such a way that it could be available on the first alarm and when needed.

This was not all. Its founders hoped to spread to other countries their idea of the mobilizing of securities by the one kind of bond. They tried to found a *crédit mobilier* in Austria and succeeded in establishing one in Spain. They had ambitious aims, and thought that they could unify the circulation of securities, not only in France, but also in Europe. In this way they thought no capital would remain unproductive.

But in matters relating to credit, and especially credit tied up in silent partnerships, "there's many a slip 'twixt cup and lip." The risks in industries and also in stock-exchange speculations are too great to allow of such hopes. If the issue of a bank note, properly so called, offers every security, it is because it represents short-dated commercial paper, bills which are the result of

National Monetary Commission

operations already transacted, the real security of which (although not acknowledged) is merchandise of current sale and consumption. Short terms of payment (fifteen days, one, two, or three months) give continual assurance of available funds; the certain operation of the sale of a piece of merchandise, which sale will allow the payment of a bill falling due, is likewise safe, when the discount of paper is submitted to an enlightened examination. There is then no connection between the issue of a bank note, which represents bills of commerce, or cash, and the issue of bonds representing state securities, or industrial securities, the safety of which is not of a kind to allow their circulation to such a wide extent. To be sure, these bonds were to be paid on maturity, whereas the bank note must be paid on sight. Nevertheless these bonds were subject to the ups and downs of the market, and at the times they were due, they had to be paid, and, what is more, to have their interest guaranteed each year. With what? With the income on industrial shares and state funds, and, even then, it was necessary to allow these bonds a higher interest than that on state funds. Otherwise how could the public be expected to prefer the bonds? As to industrial shares, their dividends were destined to be an important resource. But in that case it is dangerous to enter as a partner into a new industry the fate of which you can not foresee. You should therefore become a partner only in those enterprises already on the road to success, but then partnership banks (*banques commanditaires*) were not established for such enterprises which find credit easily enough in commercial banks, since their capital is already

Evolution of Credit and Banks

raised, and they need funds only for running expenses. Hence it follows that partnership banks, useful and necessary in industrial countries, are not destined to follow the methods devised by the founders of the *Crédit Mobilier*.

Besides, this method fortunately was not applied on a large scale by the founders of the *Crédit Mobilier*. Nevertheless the speculations carried on by it and under its influence caused many failures. The growth of speculation in France dates from this time.

Finally, the first condition for a partnership and investment bank (*banque commanditaire et de placement*) is to have enlightened directors, acquainted with industrial conditions in such a way that they will not be carried off their feet by the enthusiastic reports of engineers or inventors, and risk capital in impossible enterprises or those predestined to failure. To this end there is needed a staff of business men, both well informed and practical, with no pretensions to being universal or ubiquitous. Now, these were not the particular qualities sought after by the *Crédit Mobilier* in choosing the directors for its industrial companies. The fact may be cited that in 1863 one of these directors belonged to the administrative board of 19 companies, engaged in almost as many different kinds of business, and calling for very wide and different aptitudes. The capital of these companies represented three billion and a half francs.

After having tried in vain to have the Bank of Savoy continued (Savoy was annexed to France in 1865); considering that they would not be able to use this bank, as

National Monetary Commission

they hoped, for issuing bank notes; and having need then of capital, they doubled their capital, raising it in 1866 from 60,000,000 to 120,000,000 francs. But that was a bad year. The fiscal year of the Crédit Mobilier showed a net loss of nearly 8,000,000 francs. In 1867 there was great embarrassment and growing difficulties. The founders retired. On November 30, 1867, their successors stated that the losses then amounted to 47,500,000 francs.

From that time on the Crédit Mobilier virtually entered into liquidation.

Since that period no houses of that kind have been founded on those same principles in France. Many small banking houses meanwhile have done business in disposing of securities, but they have not had the ambitions or the importance of the Crédit Mobilier. Since then a large establishment, the *Banque de Paris et des Pays-Bas*, carries on this business of an investment bank, and of helping to create new industries, chiefly those on a large scale; it also negotiates public loans. But this bank has not attempted, any more than the *Banque de l'Union Parisienne* (which carries on the same operations) to take up again the system of issuing bonds representing the securities it possesses.

The three successive institutions established by M. Mirès all rested, almost exclusively, on the idea of speculation. Hence the operations consisted in buying and selling on the Bourse public securities, industrial and railroad shares, etc. M. Mirès's first establishment was called *Caisse des Actions Réunies*. It was founded on the principle of the *commandite*. Its original capital was 5,000,000 francs, in 1,000-franc

Evolution of Credit and Banks

shares, which could be subdivided into share coupons of 500 francs. Its success was rather marked during its early years. M. Mirès wanted to extend its field of operations, and under the name of *Caisse et Journal des Chemins de fer*,^a he enlarged his first house, increasing the capital to 12,000,000 francs. This time he tried to imitate the Crédit Mobilier, which had just increased its capital. He wanted soon to be as large as the Crédit Mobilier and increased his capital to 50,000,000 francs. The establishment was called *Caisse Générale des Chemins de fer*. M. Mirès had not, like Messrs. Pereire, any very firm friends in the Government at that time; the higher administration did not favor his operations. He was active in outside schemes and took part in the Spanish loan of 800,000,000 reals; he undertook to float the Roman railroad company, and the Turkish loan, etc. Soon his institution went under. He was an energetic man, but had founded banks on a false idea of industrial credit. He did not render any services, but rather helped to spread the taste for gambling and speculating in France.

Here I must mention another establishment founded in 1862 after the disappearance of the Caisse Générale des Chemins de fer. The lucrative workings of the Crédit Mobilier, which had up to that time revolutionized the methods of capitalists and acquired a real vogue, forced a certain number of Paris bankers and large capitalists to found a house on the model of that established by the Pereire brothers. It could not start out as a joint-stock company. It needed an authorization which it could not

^a He had founded in 1842 the *Journal des Chemins de fer*, a financial paper.

National Monetary Commission

get, because the *Crédit Mobilier* stood in its way. It ended by getting its authorization in 1864. The Government had become more liberal in this respect, and the law of May 23, 1863, on limited liability companies, was the beginning of hoped-for legislation still wider in scope. The statutes of the *Société pour le Développement du Commerce et de l'Industrie en France* were then approved. The nominal capital was 120,000,000 francs, and the actual capital 60,000,000 francs. A fact to remember is that this bank, aiming to be a partnership and investment bank, also carried on all the other operations of commercial banks. It did not practice the division of risks; on the contrary, it mixed them up just as did the *Maison Laffitte-Gouin*, of which we have spoken. This point of departure needed to be dwelt on to show the evolution followed later on by the French credit societies.

CHAPTER III.—*The first Comptoir d'Escompte and the development of commerce—The laws of May 23–29, and July 24, 1867, on companies.*

Review of the chief reasons for creating the *Comptoir d'Escompte* at the time of the panic of 1848.—Certain *comptoirs d'escompte* continued to exist after the panic of 1848. That in Paris develops.—The interesting study of the *Paris Comptoir d'Escompte* in its relation to the history of French credit.—The *Comptoir d'Escompte de Paris*. Lengthening the existence of this society to 1857.—The increase of the original capital in 1853. The *Comptoir d'Escompte* of Paris gradually loosens its ties with the State and the city of Paris.—Lengthening the existence of the *Comptoir d'Escompte*. It pays back the State and becomes freer.—The *Comptoir d'Escompte* is authorized to advance money on titles and subscriptions.—Development of the Bank.—The treaties of 1860 with England. Extension of commerce.—Special commerce of France with foreign countries before and after the treaties of 1860.—Widening the field of operation of the *Comptoir d'Escompte*.—It is allowed to start agencies in France, in the French colonies, and in foreign countries.—Facilities and guaranties for new operations.—Founding of agencies in Asia.—Its capital doubles.—State guardianship of credit companies.—The *Comptoir d'Escompte* helps the colonial banks.—Services rendered by the *Comptoir* in Asia.—It starts other agencies in Asia.—Increase in business.—The capital, doubled again, reaches 80,000,000 francs.—The laws of May 23 and 29, 1863, and of July 24, 1867.—Law of 1863.—Law of 1867 (*Sociétés en Commandite par Actions*).—These laws were indispensable in view of the evolution of industries and the growth of important enterprises.—Growth of savings in France. Capital is created there.—The *Comptoir d'Escompte* enlarges its business.

We have just described the founding, the working, and the decline followed by the disappearance of the *Crédit Mobilier*, an institution of the so-called partnership and investment type. We have seen the causes of its fall; the mistakes it committed, and also to a certain extent the services it rendered. Now we are going to trace the evolution of a bank of commerce, properly speaking, practicing the fundamental business of that kind of bank, namely, discount. Besides, it is the origin of the large credit companies, which appear in embryonic form, with the *Comptoir d'Escompte*.

National Monetary Commission

In 1830 there had been an ephemeral Comptoir d'Escompte, which a crisis at the close of 1830 and 1831 had caused to be founded under almost the same conditions as the one we are going to talk about. Its capital had been furnished by the State. Its operations lasted two years. Its creation had been agreed upon so that it could serve as intermediary between merchants, manufacturers, etc., and the Bank of France. Other private banks had raised the rate of discount. Now, the Bank of France accepted only paper or commercial effects with three signatures; it was rather expensive to get the third signature. This establishment, then, was started for the purpose of making the third signature cheaper.

The Comptoir d'Escompte, founded in 1848, in the midst of a panic more serious than that of 1830-31, grew out of conditions not unlike those which gave birth to the ephemeral Comptoir d'Escompte of 1830.

We have, moreover, traced above the facts which led to the organizing of comptoirs d'escompte by the provisional government of 1848. We have seen what services they rendered. It was supposed that, like the Comptoir d'Escompte of 1830-31, they were destined to disappear when the panic was over. Now, to note a rather curious fact, this creation of the State's, which had received its first modest capital like a sort of charity collection, which had above all owed its organization and earliest resources to the State and to the city of Paris, did not disappear, nor did certain other Comptoirs in the provinces founded under the same conditions. The Bank in Paris was destined little by little to rise and free itself from its

Evolution of Credit and Banks

connections with the State and city of Paris which had been necessary at the start; then to overcome many prejudices in order to improve its statutes, and to have these improvements accepted by the public authorities.

It is an interesting subject for study because it was the opening wedge, if one may so express it, for those institutions which later on, under the name of *Grandes Sociétés de Crédit*, modified so fundamentally the general organization of credit in France. Better still, it has served to a certain extent as a guide in this evolution. Several of these credit societies, indeed, started by being banks more given to speculation and investment than to commercial operations. The Comptoir d'Escompte, on the contrary, has always fulfilled the functions which its firm name indicated and its origin had given it. Though it happened to deviate momentarily from this line of conduct in order to speculate in the most dangerous way imaginable for a credit company, and though it disappeared in the storm it had started, the new and reorganized Comptoir d'Escompte took up again the good traditions of the old one, and was able at its organization to apply all the improvements necessitated by the needs of modern commerce and industry. So the Comptoir d'Escompte is the type of the French credit institution. It stands all through the latter half of the nineteenth century to the present day as the sign post on the road followed by credit institutions in France.

In 1850 the first lengthening of the term of existence of the Comptoir d'Escompte de Paris was made to extend to March 18, 1857. Its capital was still about the same

National Monetary Commission

as at the start—that is, very unimportant—and rose to 4,200,000 francs. But it had at its disposal about 8,000,000 francs in deposits and current accounts, and the Treasury continued its subsidiary loan of 3,000,000 francs. Bills of all kinds discounted in 1850 rose to a total of nearly 128,000,000 francs. That year the shareholders felt that they had achieved something not only for the public good, but also very profitable for themselves, since they received a dividend of 7 per cent of the nominal capital. Success increased in the years following.

In 1853 the capital was increased to 20,000,000 francs. Why? Because the original capital of 6,500,000 was too small to offer a sufficient guaranty, since the business of the Discount Bank had increased very greatly. In 1852 the discount of bills with two signatures, that of warrants or receipts of merchandise, bills coming from branch banks, made up a total which, with the addition of foreign securities, rose to more than 248,000,000 francs; and the Comptoir d'Escompte had, according to the statement of June 30, 1852, 15,000,000 francs in current credit accounts—that is to say, 15,000,000 francs in deposits. Adding the non-negotiable guaranteed capital to these 20,000,000 of accumulated capital—capital furnished by the State and the city of Paris—the whole capital reached 33,333,000 francs.

But this gradual transformation of an institution supported by the State which, as it grew, was freeing itself little by little from this protection, was destined to bring about a lessening of the guaranties sanctioned by the State and the City of Paris. The share capital

Evolution of Credit and Banks

increased at the same time that the guaranteed capital remained stationary. It was then decided to reduce the guaranty of the State and the City of Paris from a third to a fifth of the total capital. Moreover, the Government announced to the directors of the Comptoir d'Escompte that the issue of share capital was to be carried out before December 31, 1854, so as to allow the cancellation at that date of the guaranties and the repayment of the 3,000,000 francs loaned by the State.

This decision took on a general character in the law of June 10, 1853, for it was applied to the Comptoir d'Escompte of Paris and those of the departments.

These measures were necessary because in 1853 the discounts reached more than double what they had been in 1852—that is to say, 500,000,000 francs.

While taking back its guaranty, the State prolonged for a term of thirty years, beginning March 18, 1857, the duration of the Société du Comptoir d'Escompte. Thus the Comptoir d'Escompte became free. Formerly, indeed, the directors nominated by the Minister of Finance represented the State's interests. They supervised all operations, since these could not be carried on without their authorization. The Minister himself alone authorized the sending out of dividends to the shareholders. Three delegates of the Paris municipal council represented the interests of that city and took part in the meetings of the council of administration and the general meetings of shareholders.

New statutes were drawn up and approved by the decree of July 28, 1854. The directors were in future to

National Monetary Commission

be nominated by the general meeting of shareholders. The Minister of Finance had nevertheless reserved for himself the right of approval. Its operations became more extended. To all those which it was accustomed to carry on were added others, such as advances on government securities, on shares, and bonds; the opening for a third party, and at a commission agreed upon, of subscriptions to public loans, or to loans issued for the capital needs of all joint stock companies, always subject to the authorization of the Minister of Finance.

In spite of this interference the Bank, which from that time forth was called the Comptoir d'Escompte de Paris, carries on its business under its new statutes.

Here, finally, is a table of the operations in discount of this institution from 1853-54 to 1859-60:

Financial year.	Total number of bills discounted.	Sum total of discounts in million francs.	Average of current credit accounts, in million francs.
1853-54	837,000	628	22
1854-55	877,000	653	20
1855-56	936,000	704	19
1856-57	942,000	682	18
1857-58	985,000	665	18
1858-59	999,000	663	20
1859-60	1,000,000	680	20

The number of commercial bills discounted increased, but the sum total in million francs, after having increased, too, until 1855-56, went down in 1856-57. You see, nevertheless, what services the Comptoir rendered to trade; the average of each bill in 1856-57 was found to be 723 francs in round numbers. The falling off of

Evolution of Credit and Banks

the sum total of discounts during the last year has to do with the crisis of 1857. The crisis lasted until 1859, for we see the figure representing the total of discounts going down to 665,000,000 francs in 1857-58, and to 663,000,000 francs in 1858-59. The rise began again in 1859-60. The current credit accounts did not increase and show rather a falling off from 1853-54 to 1858-59. It has been said that at that time capital was being absorbed by public loans and by loans to large railroad companies. We must also note that the Bank was not allowed to accept in current accounts a sum more than one and a half times the net cash capital. This clause prevented the current accounts from increasing, and at bottom this measure favored the Bank of France. In any case this restriction diminished public confidence.

COMMERCIAL TREATIES OF 1860.

We have seen the movement of high finance set in motion in France between the years 1849 and 1865 by the public loans for wars or needs of the budget, and loans made by the railroad companies. The review of the *Crédit Mobilier* has enabled us to trace in its development the important part played by these two chief causes in the accumulation of capital and its circulation in France during this period of fifteen to eighteen years. These facts emphasize the phenomenon of the creation of capital by saving, and it is a striking point that France, even at that time, was sending money out of the country to finance industrial enterprises, especially railroads.

National Monetary Commission

But if these elements of productive power were the cause of a general economic activity in France, they did not have such an immediate effect on commerce and international exchanges as the treaty with England, concluded on January 23, 1860. France giving up the narrow protective system followed until then, threw wide open its frontiers to English trade. The country did not have to repent it. The following table shows the movement of special commerce during the five years before the commercial treaties of 1860 and the years which followed until the war of 1870-71:

[Million francs.]

Year.	Imports.	Exports.	Total.
1855-----	1,594	1,558	3,152
1856-----	1,989	1,893	3,882
1857-----	1,873	1,866	3,739
1858-----	1,563	1,887	3,450
1859-----	1,640	2,266	3,906
1860-----	1,897	2,277	4,174
1861-----	2,442	1,926	4,368
1862-----	2,199	2,242	4,441
1863-----	2,426	2,642	5,068
1864-----	2,528	2,924	5,452
1865-----	2,641	3,088	5,729
1866-----	2,793	3,180	5,973
1867-----	3,026	2,826	5,852
1868-----	3,304	2,790	6,094
1869-----	3,153	3,075	6,228

Now, here are some statistics showing the general commercial development of railroads between the years 1855 and 1869. We have not given the figures for every year, thinking that those given are enough to show the enormous growth of length of lines and of the movement of traffic during this period.

Evolution of Credit and Banks

French railroads.

Year	Length of roads, in kilometers.	Total net proceeds, in million francs.	Net kilometeric proceeds, in thousand francs.	Number of passengers, by millions	Number of tons of merchandise, in million tons.
1855-----	5,037	155	31.0	33.0	10.6
1860-----	9,167	230	25.0	56.5	23.0
1865-----	13,227	310	23.5	81.5	34.0
1869-----	16,465	385	23.3	111.0	44.0

The Comptoir d'Escompte of Paris did its best to profit by the revival of trade destined to follow the conclusion of the treaties of January 23, 1860, with England, and helped on by the development of French railroads.

First of all, it was important to extend the workings of this credit establishment both at home and abroad. So it had to win a little more liberty, and not remain under too narrow a charter. The State, indeed, had only conceded under restricted conditions its right to become a stock bank under the title of Comptoir d'Escompte de Paris. This time the Government did not refuse to back up the plans of the institution. The decree of May 25, 1860, approved the modifications of the statutes put forward by the directors. These modifications were the authorization to start agencies in France, in the French colonies, and abroad, with the approval of the Minister of Finance. Further, in order to carry on operations made necessary by these agencies, the Bank was authorized to accept orders, drafts, and letters of exchange which should be secured by transfers of bills of lading and bottomry; to discount up to a term of one hundred and eighty days sight commercial bills backed up by bills of lading.

National Monetary Commission

A few days later two agencies were founded, one in Shanghai, China, the other in Calcutta, India.

On August 30, 1860, the Comptoir d'Escompte was authorized to double its capital from 20,000,000 to 40,000,000 francs. The issue of 40,000 new shares was entirely successful.

Let us point out here this fact, that an institution of credit must be authorized, as we have just seen, in order to increase its capital. The management of institutions of credit founded as joint stock companies, or even in the form of silent partnerships, was under the protection of the State. So it is not to be wondered at that a greater number of important credit companies are not founded. Except for the unexpected revolution of 1848 and the panic which resulted from it the Comptoir would probably never have existed. It was, indeed, the first credit society in France which attained its definitive form from the start, that of a bank of commerce—that is to say, of discount with all the operations that go with it.

About the same time, in 1860, the Comptoir d'Escompte helped with loans of money certain colonial banks (those of Martinique, of Réunion, and Guadeloupe). These banks of issue were obliged to put their capital into government securities as a guaranty for issuing their notes for equivalent sums. Now, their power of credit was soon spent. After having turned into money the securities which they held—that is to say, put into circulation that part of the state debt which they possessed—nothing was left them to do business with. The

Evolution of Credit and Banks

Comptoir d'Escompte guaranteed credits for them or loaned them money, and later it extended this operation to the banks of Guiana and Senegal.

And so the Comptoir was established in the Far East, and its influence was felt in our colonies. It soon showed that its agencies were useful. The one in Shanghai, besides its current business, collected the war indemnity due the French Government after our Chinese expedition. Moreover, the new treaty gave French merchants the right of opening up relations with the Chinese Empire. So it was a valuable help to our countrymen. In Calcutta the economic movement took on all the greater importance because the civil war in the United States made India the center of the cotton supply for Europe.

These first successes caused new Asiatic agencies to be founded in 1861 and 1862 in Bombay, India; Saïgon, Indo-China; and Hongkong.

During this time the business of the Comptoir was spreading and taking on an importance little in keeping with its capital. It had extended greatly its activities in the provinces, in the principal French cities, having accounts with the bankers of these cities and keeping their accounts in turn. Profits were good. For the financial year 1865-66 the dividend was 12.7 per cent on the capital. It is true that the discount and banking operations had been 1,000,800,000 francs for that year and that in Indo-China business had amounted to more than 700,000,000 francs.

The capital then was increased to 80,000,000 francs. The subscription succeeded admirably, which was not surprising.

National Monetary Commission

THE INFLUENCE OF MORE LIBERAL LEGISLATION ON BUSINESS IN GENERAL AND ON CREDIT IN PARTICULAR.

In the period from 1863 to 1867 new laws were passed which have had a very great influence on the development of large industries and credit institutions. We shall take these laws into account only so far as they concern the latter.

Before the law of May 23-29, 1863, no joint stock company could be founded without the authorization of the ruler and without his approval of the act which constituted the society. This law did away with this authorization, but stipulated that the capital of the society could not be more than 20,000,000 francs. The shares forming the capital fixed on by the founders were to be completely subscribed for, but the law required that only a quarter of the capital issued be paid in. The directors nominated by the general assembly of shareholders (which approves the statutes) must own in equal lots one-twentieth of the society's capital, and the shares forming this twentieth were not to be sold. They were personal and untransferable. One article of this law stipulated with reference to supervision that the general assembly of shareholders should pick out one or more special commissioners to report to the general assembly on the condition of the society. Then certain measures for publicity were enacted (the registering of the statutes and amendments of these statutes in the court record office) and other measures of order and procedure for the general assembly of shareholders.

Evolution of Credit and Banks

The law of July 24, 1867, repealed the law of June 23, 1863. This law of 1867 treated with limited liability partnerships issuing shares (*sociétés en commandite par actions*) and joint-stock companies. It no longer limited the capital stock of companies and it increased the publicity by requiring the statutes or changes of statutes to be inserted in at least one newspaper, specified for receiving legal notices. As in the law of 1863, the directors were to be chosen for six years, but they were eligible for reelection. The number of shares which they may own was determined by statute. Finally this law, while organizing a sort of parliamentary system for joint-stock companies, of which the general assembly of shareholders was the foundation, gave real freedom, a more flexible instrument than the law of 1863, to industry, trade, and banking.

The law was indispensable because of the growth of large industries, and the natural concentration of capital. The old mould had to be broken in order to keep up with the general economic movement marked by the controlling influence of new scientific inventions and their application to industry. The steam engine, the locomotive, the beginnings of electricity—all revolutionized the conditions of industry. Concentration of capital was becoming necessary even then, and a mathematical function, as it were, of the tendency of industries to concentrate.

Besides, this capital did not belong to large capitalists; capital was being collected also in the middle classes and all ranks of society.

National Monetary Commission

Here is an indication of this fact, as shown in the development of savings banks.

Year.	Number of savings banks.	Number of branch banks.	Balance due depositors (million francs).	Private property of the banks (million francs).
1835.....	159	55	62.1	-----
1841.....	301	159	249.7	-----
1851.....	366	159	^a 158.0	5
1861.....	459	243	401.0	10
1865.....	497	475	493.0	13
1867.....	513	564	571.0	14

^a This low figure is due to the panics of 1847, 1848, 1849, and also to the political crisis of that period.

In the year 1869, preceding the Franco-Prussian war, the balance due to depositors rose to 711,000,000 francs.

That was only an indication. The middle classes were investing their money in railroad and city bonds and in government securities. The *Crédit Mobilier* and the other institutions of that kind did not create the taste for saving money in France; they only directed it toward transferable securities. It is even a fortunate accident that the *Crédit Mobilier* gradually disappeared, succumbing under mistakes which opened the eyes of the least farseeing to the danger of speculative crazes. We in France have not always been immune from these crazes since then, but the attacks for most of the savers have been only temporary. The great majority of the very numerous persons who accumulate capital has always after the storm taken up again the patient, persistent work of saving.

Evolution of Credit and Banks

Now that we have set forth these reflections and these facts to show in what surroundings the French credit institutions developed and what laws helped in this development, we may return to the *Comptoir d'Escompte*.

The *Comptoir d'Escompte* had in its general meeting of December 8, 1866, raised its capital to 80,000,000 francs and established a reserve fund of 20,000,000 francs.

In 1867 it enlarged its sphere of action by establishing new agencies. In France it founded one at Nantes (1867), at Lyons (1868), and at Marseilles (1869). Abroad it established those at London (1867), Yokohama, Japan, and Alexandria, Egypt. The *Comptoir* had as wide interests in foreign countries as in France.

Its agencies at Nantes and Marseilles, both seaports, put it in touch with firms having business with our colonies, or with those numerous and often rich firms which had business with Egypt, India, and the Far East. Finally, the agency at Lyons was very efficacious because of the accommodations it gave silk merchants for extending in that city the silk market which it had succeeded in wresting from London a few years before.

In 1869-70, on the eve of the Franco-Prussian war, the total business of the *Comptoir* reached 3,086,000,000 francs, an enormous sum for that time, and this business was made up as follows:

	Francs.
Discounts.....	1, 187, 000, 000
Foreign agencies.....	1, 096, 000, 000
Home agencies.....	438, 000, 000
Other operations.....	365, 000, 000
Total.....	3, 086, 000, 000

The dividend that year rose to 9 per cent.

National Monetary Commission

We are far from the modest beginnings of the Comptoir; indeed, we have seen its first capital formed like a charity collection, at the most distressing time of the panic of 1848, when it was started. It had always been true to its purpose of a discount bank, and soon found itself brought into business relations with the most distant foreign countries. Circumstances forced this, as, for instance, the first war with China and the difficulty at that time of competing with the provincial banks which, since the increase in the number of branches of the Bank of France, found help in this great issuing establishment, which rediscounted their commercial bills for them. Nevertheless, in the last period we have gone over, it founded agencies in the most important French cities. It is none the less the pioneer in the founding of foreign agencies.

CHAPTER IV.—*The Bank of France from 1860 to 1875.*

Tendency of the Bank to have a large cash reserve.—Unproductive circulation.—Difference in the evolution of the Bank of England and the Bank of France.—The Bank of France gradually becomes the depository of French specie.—Gold purchases as a means of increasing the reserve.—The panic of 1864.—Its causes.—First symptoms.—Acute period of the crisis.—The Bank buys gold.—The interest on loans on securities becomes different from the rate of discount.—The law of March 3, 1852, in regard to loans on railroad securities.—Its consequences.—Panic of 1856–57.—Panic of 1862–64.—The interest on loans on securities was the same as the discount rate.—The Bank establishes an increase in interest on loans on securities as compared with the discount rate.—The issue of bank notes representing loans on securities. Dangers of its exaggeration.—Issues and discounts of the Bank from 1864 to 1870.—Note on a fact seemingly paradoxical; differences in 1865–66 of 6 per cent between the discount rate of the Bank of England and the Bank of France.—The panic of 1865–66 in London in its relation to the Paris money market.—Moral obligations of the Bank toward the Government. Its financial help in war time.—Legal currency and forced currency (August 12, 1870).—The right to increase the issue.—Bank's loans to the State.—Loan to the city of Paris.—Precautions taken by the Bank.—Disadvantages of a state bank in time of war.—Forced payments to the Paris Commune.—Increase in discounts.—Services rendered by bank notes.—Growth in economic activity after the war of 1870–71.—Collection of bills the time of payment of which had been extended.—The loss in the collection of extended bills is very small.—Deep lying causes of commercial customs.—Increase in the limit of issue for the Bank of France.—Flexibility of the system subject to the intelligent action of the public authorities.—Comparisons with the Bank of England.—Terms of payment of the war indemnity.—Method of payment.—Interest in explaining these operations.—Secondary conditions.—Loan of 2,000,000,000 francs in June, 1871.—Loan of 3,000,000,000 francs in July, 1872.—Success of the loan of 1872.—Loan by the Bank of France to the State.—Agreement with a syndicate of bankers.—France's progress in the knowledge of the conditions of credit.

I.—BEFORE THE FRANCO-PRUSSIAN WAR.

Let us return to the Bank of France, which we left in 1860 after its operations of marketing railroad securities. We know that it had already increased the number of its branch banks.

The following table shows the development of its operations; it will help us on several points to make the observations which certain figures call for; we divide the interval before the war into periods of two years each.

National Monetary Commission

[Million francs.]

Year.	Average reserve.	Average circulation.	Number of bills discounted.	Sum total of bills discounted.	Average of commercial "portfolio."	Rates of discount.	
						Maximum.	Minimum.
						<i>Per cent.</i>	<i>Per cent.</i>
1859	570.0	716.4	3,395,163	4,714.0	484.0	4.5	3.0
1861	368.6	745.0	4,188,471	5,307.6	531.3	7.0	5.0
1863	305.0	796.0	4,280,378	5,706.7	568.7	7.0	3.5
1864	252.1	761.9	4,698,437	6,546.3	635.0	8.0	3.0
1865	439.6	839.0	4,734,997	6,039.7	595.8	5.0	3.0
1867	845.0	1,081.5	5,001,881	5,723.0	530.7	3.0	2.5
1869	1,190.0	1,354.5	5,656,600	6,635.0	568.0	2.5	2.5

We see first of all that the reserve has risen in this space of time from 368,000,000 to nearly 1,200,000,000 francs—that is, it has more than tripled. The circulation of bank notes has also increased, but has not quite doubled. The discounts have not increased, as is shown in the column containing the average total of the commercial "portfolio," which in 1869 was the same as in 1863—568,000,000 francs. The notes in circulation, then, in large part represent specie—that is, the reserve.

If we deduct from the average total of circulation the average total of commercial bills, we have left 786,500,000 francs, which are an important part of the circulation representing specie and having nothing in common with the credit through issue; this is called unproductive circulation in institutions of issue. To be sure, we must take into account advances on securities; but during these nine years the average total of collateral loans, which reached nearly 181,000,000 francs in 1861 and 166,000,000 francs in 1862, fluctuated after that between 75,000,000 and 85,000,000 francs.

Evolution of Credit and Banks

It is a strange thing, and at first sight almost paradoxical, that when the very strict law of 1844 forced the Bank of England not to issue, over and above a certain figure, anything but gold certificates, the Bank of France, without the intervention of any law, but simply by the course of events and the spirit of economy among the French people, saw this very idea of the law of 1844 carried out without any government interference. Indeed, not only were the French as a nation saving money, but their savings flooded the money market because they were not being used either in industries at home or in the colonies, as was the case at that time in England.

To be sure, the *Crédit Mobilier* sent French capital to Austria, Spain, Russia, etc., to build railroads; in France, too, the railroads had already required several billion francs for their construction; but our capacity for accumulating capital gives us an extra amount of cash capital, of which the Bank of France gradually becomes the depository. Aside from the great and far-reaching panic caused by the Franco-Prussian war, in proportion as the Bank spread its influence through France by means of its branches this phenomenon took place more and more. The consequence was that the Bank tried means different from those it had applied before to protect its reserve.

In former panics in 1847 and 1855-1857 the Bank of France bought gold to keep up an adequate reserve. In this last panic it had recourse to this method to the sum of almost 1,300,000,000 francs, purchases which cost it a little over 1 per cent. Henceforth it no longer needed to

National Monetary Commission

use this method to any extent except during the panic of 1864.

Where did this panic start? It started in America. The War of Secession was the immediate cause. The panic, as is always the case, was first felt in England because of its important relations with the United States, and then in France.

The War of Secession greatly disturbed the supply of certain products which Europe got from America. The American cotton merchants called in at the beginning of the war the money due them and found themselves obliged to refuse the orders which had been given them, and it was impossible for them to deliver those which they had already accepted. In order not to shut down, the European factories had to buy cotton in India. All this caused great changes.

The beginnings of the panic were felt as early as 1861. The preceding table shows that in comparison with 1859 the average reserve went down from 570,000,000 francs to 368,600,000 francs; the discount went to 7 per cent, with a minimum of 5 per cent. In 1865 there was a still greater falling off in the average reserve. It went down to 305,000,000 francs. The minimum in November was even as low as 200,000,000 francs. It did not drop lower than that figure during the worst period of the panic, but the discount rate went to 7 per cent, as in 1861.

In 1864 the panic was at its worst at the time of foreign payments, the end of April to May, and September to October. During the first period the reserve fell below 160,000,000 francs in spite of a rise in the discount rate to

Evolution of Credit and Banks

8 per cent. In the face of a greater and greater number of bills presented for discount, the Bank directors, because of the growing demand for coin, decided again to buy gold. Thus the Bank purchased gold abroad to the sum of a little less than 240,000,000 francs. In September and October the discount rate, which had been lowered for some time, was raised to 7 per cent, then to 8 per cent, with a special view to reestablishing the reserve. At the end of the year the discount rate fell back to 4½ per cent.

The Bank had been authorized since 1834 to make advances on securities to private individuals. Up to about 1851 these operations were not very important, because this kind of securities was limited to those of the State or of cities. From the moment when the Bank could consent to advance money on a larger variety of certificates—that is to say, transferable securities—when it could lend money on stocks and bonds of railroads, of the *Crédit Foncier*, etc., this side of its business took on large proportions. The following table shows this progress. We give only five-year intervals from 1834 to 1851, and after that every year up to 1870:

Year.	Loans on securities.	
	Total sums advanced.	Average portfolio.
	<i>Francs.</i>	<i>Francs.</i>
1834.....	27,600,000	7,700,000
1840.....	70,500,000	10,500,000
1845.....	52,300,000	11,200,000
1850.....	76,700,000	18,800,000
1851.....	51,900,000	10,800,000
1852.....	523,500,000	68,300,000
1853.....	773,900,000	129,500,000
1854.....	471,400,000	89,500,000

National Monetary Commission

Year.	Loans on securities.	
	Total sums advanced.	Average portfolio.
	Francs.	Francs.
1855	671,700,000	105,200,000
1856	834,800,000	81,200,000
1857	353,600,000	52,500,000
1858	599,500,000	97,000,000
1859	684,200,000	117,100,000
1860	651,600,000	122,800,000
1861	472,500,000	88,200,000
1862	1,303,600,000	180,600,000
1863	999,200,000	166,100,000
1864	423,300,000	84,200,000
1865	401,800,000	74,000,000
1866	420,400,000	77,400,000
1867	445,700,000	85,800,000
1868	433,400,000	84,100,000
1869	480,000,000	94,200,000
1870	542,000,000	121,600,000

Let us remark again before drawing conclusions from these figures that the law of June 30, 1840, had allowed all public securities as guaranty for commercial bills presented for discount with two signatures.

First of all we note that in 1852 the total loans for the year rose to 523,500,000 francs, whereas they were only 51,900,000 francs in 1851; in the same way the average of the "portfolio" went from 10,800,000 francs to 68,300,000 francs. The movement went on and increased in 1853. The reason for this was the law of March 3, 1852, which extended the loan operations of the Bank to railroad stocks and bonds, whereas by the terms of the law of May 17, 1834, the Bank could make loans only on French government securities. After dropping in 1854 these figures rose, and during the panic of 1856 reached almost 835,000,000 francs for the total

Evolution of Credit and Banks

loans and 81,000,000 francs for the average during that year. The panic had caused a call for loans to be made by the holders of securities who needed cash capital or bank notes. Next we see a falling off in the total and average loans in 1857, then they went up in 1858 and reached a total of nearly 600,000,000 francs and an average of 97,000,000 francs. In 1862 the total of collateral loans went up to a figure unheard of till then, almost 1,304,000,000 francs, and the average to 180,500,000 francs; the following year we find respectively almost 1,000,000,000 francs in one column and 166,000,000 francs in the other; it was another panic—the cotton panic brought about by the War of Secession—which called forth this demand for cash or bank notes. It was also the time when the *Crédit Mobilier* started out to market railroad securities. Everyone used what means he had to obtain credit and borrowed on securities when the discount on commercial bills was not enough, railroad securities having become very numerous on account of repeated borrowings.

Now, the Bank of France made its loans at the same rate as that which it fixed for discount. In view of the numerous demands for loans during these two years, 1862 and 1863, the Bank understood that it was necessary to establish a higher rate for the interest on collateral loans. Its directors saw rather late the usefulness of this measure.

In reality, transferable securities, stocks or bonds deposited as collateral for promissory notes, are not easy to realize on by the depositor even when the need is urgent. Too many obstacles prevent their being quickly negotiable, even assuming that the loan has fallen due.

National Monetary Commission

It is understood that the margin between the market quotation of the security at the moment of the loan and the value below the quotation which the banker fixes for the loan, guaranties the banker against all risk if this margin has been cautiously worked out. But here one might say that the sureness of the guaranty is in inverse ratio to the availability of the capital loaned. Granting, then, that payment has fallen due, you will call upon the debtor to pay his debt. But he may fail to obey this call, especially in a panic. Here you can not use the rapid methods of procedure thought out for bills of commerce. It is a collateral loan, so you have to reach the point of using the right to sell the collateral. Now, selling government and railroad securities, etc., in time of panic, throwing great quantities of them on the market, necessarily causes a decline in these securities and others of the kind allowed as collateral on loans. To issue bank notes against securities that can not be quickly realized on is something a bank of issue ought not to do without caution. The problem was new at that time, and it was only the heavy loans of 1862 and 1863 that began to alarm the bank directors.

The method to employ was simple; it consisted in raising the interest on loans in comparison with the discount rate. This is what the Bank did. The effects of this measure were immediately felt; the total of loans remained around 400,000,000 to 450,000,000 francs. Here, as a document that bears on this measure, is a table of the differences in favor of discount demanded by the Bank up to 1870.

Evolution of Credit and Banks

Extra interest on loans as compared with discount rate.

[Discount rate and interest on loans the same before March 24, 1864.]

	Per cent.
From March 24, 1864, to May 5, 1864.....	1
From May 6, 1864, to May 25, 1864.....	0
From May 26, 1864, to September 8, 1864.....	1
From September 9, 1864, to November 2, 1864.....	0
From November 3, 1864, to March 8, 1865.....	1
From March 9, 1865, to May 31, 1865.....	½
From June 1, 1865, to October 8, 1865.....	1
From October 9, 1865, to November 1, 1871.....	½

If we go back now to the table before this one, we see that during the years which follow the panic of 1863-64 the metallic reserve rose by degrees. In 1869, on the eve of the Franco-Prussian war, it rose on an average to about 1,190,000,000 francs, or, more precisely, 1,189,800,000 francs; the circulation of bank notes exceeded on the average 1,354,000,000 francs. In 1868, moreover, the average reserve already reached 1,174,000,000 francs, and the circulation rose to 1,233,000,000 francs. The amount of the reserve almost equalled the circulation. The difference was less than 60,000,000 francs. But is that a sign of prosperity? To prove that this sign is fallacious it suffices to follow the fluctuations of the figures relating to discounts collected in the following table:

Year.	Average discounts.	Average rate of discount.
	<i>Francs.</i>	<i>Per cent.</i>
1856.....	493,000,000	5.51
1860.....	493,300,000	3.63
1864.....	635,000,000	6.50
1865.....	595,800,000	3.72
1866.....	656,600,000	3.67
1867.....	530,700,000	2.71
1868.....	458,500,000	2.50
1869.....	568,000,000	2.50
1870.....	738,000,000	3.99

National Monetary Commission

Hence beginning with 1856, the year when the average discounts reached a figure till then unknown, we see the discounts rising in a few years to figures which fluctuate around 600,000,000 francs. Then from 1867 this average goes down to only 458,500,000 francs in 1868; at one time even the discounts showed in that year a minimum of 410,000,000 francs. The falling off in business previous to 1870 was directly connected with fear for the political situation in Europe. Since 1866, since Sadowa, war was thought to be probable between France and Prussia, and this fear checked business transactions; people did not dare to invest capital in industrial concerns. You notice this in looking over the average balance of individual current accounts at the Bank of France. After having exceeded 200,000,000 francs in 1859 and 1860, it had fluctuated from 1861 to 1865 between 165,000,000 and 185,000,000 francs. But from 1866 it went up as shown by the following table:

Average balance of individual current accounts.

	Francs.
1861	164, 200, 000
1862	186, 100, 000
1863	170, 800, 000
1864	146, 500, 000
1865	176, 800, 000
1866	267, 600, 000
1867	311, 300, 000
1868	407, 300, 000
1869	348, 600, 000
1870	402, 600, 000

REMARKS.

London experienced in 1865-66 a financial crisis in the form of a money shortage, which was one of the most severe that market ever had. There were several reasons for it; one fundamental cause was the heavy demand for

Evolution of Credit and Banks

gold in India; another cause of weakness was in the mechanism of the Bank of England, which, beyond its loan to the State, can not issue notes without having their value in gold in its treasury; finally, an unprecedented public panic forced the closing of the most trustworthy credit firms which operated only in the most conservative way, like the joint-stock banks. The curious thing is that the discount rate went up to 10 per cent at the Bank of England; it stayed three months at that level, whereas that of the Bank of France did not exceed 4 per cent during this period, and even fell to 3.5 per cent. This shows that gold was not being exported to England from France. How can we explain that these two markets so near to each other should be so little subject to the regulative law of supply and demand, while no restrictive law in France opposed at that time the transportation or sale of gold to foreign countries?

Let us retrace first the fluctuations in the discount rate at the Bank of England and the Bank of France from October, 1865, to July, 1866.

Date.	Discount rate.	
	Bank of England.	Bank of France
	<i>Per cent.</i>	<i>Per cent.</i>
1865—October 2	5	3
October 5	6	4
November 12	7	5
December 28	7	4
1866—January 4	8	5
March 15	6	3
May 3	7	3
May 8	8	3.5
May 11	9	4.0
May 12	10	4.0
July 16	10	3.5

National Monetary Commission

The reason for this state of affairs seemingly so abnormal is that the panic of 1866 in London was purely local. The English public greatly exaggerated the shipments of gold to India. Passing troubles, which at other times would not have been noticed, made depositors in certain joint-stock banks lose confidence. The public made a mad rush, and the result was that some of these houses suspended payment. It was a genuine panic, which brought about what we call to-day a run on the bank. What happened next? These joint-stock banks, like all London banks, helped to make at the clearing house, for their own account and that of their clients, compensatory payments and balancings of checks. These substitutes for coin failing suddenly so far as these banks were concerned, a money scarcity followed. The machinery of the clearing house is really very delicate and sensitive. If it has just suffered a slackening or a sudden jerk, the whole mechanism of London credit is affected. So the Bank of England was called upon. Thanks to the suspension of the act of 1844, this bank could issue an extra allowance of notes amounting to £6,000,000, and save its situation by gradually raising the discount to 10 per cent. Its reserve, which was £14,000,000, went down to only £11,800,000 on May 23, being a diminution of £2,200,000. As for London exchange on Paris, which varied then from 25.12 to 25.30, it went down during the worst of the panic to 25.10. The exchange, then, showed that it was rather more advantageous for Paris to buy gold in London. In reality, the 10 per cent rate of discount maintained by the Bank of England was

Evolution of Credit and Banks

kept up perhaps a little longer than necessary. In any case London's rate of exchange at that time was not disadvantageous relatively to Paris and other European markets, such as Amsterdam, Hamburg, etc. The rate of exchange went up only on Calcutta.

At that time the intercommunication between the European money markets was not as finely adjusted as it is to-day. At the present time and under the same conditions the rise in exchange would have been momentary, but it would have been felt just the same. There are sympathetic crises, just as there are sympathetic pains, which the delicate sensitiveness of the organisms explains. Thus the crisis of 1866 had for its chief cause the pains aroused by a slightly abnormal demand for gold in India and especially by the increase in the needs for actual cash caused by the suspension of the banks of which we have spoken. On the other hand, the other European markets had either a silver standard or bimetallicism; so it is likewise easy to understand why they thought so little of protecting themselves and showed so little anxiety, since the London panic in its worst period was characterized by a demand for gold. We have seen that this demand was not very great, since the continental markets did not have to export gold, and the Bank of England itself had only a little over £2,000,000 less than its normal reserve.

II.—THE FRANCO-PRUSSIAN WAR AND ITS CONSEQUENCES.

The Bank of France, bound to the State and holding its privilege from the State, was naturally destined to play a very active part in connection with it during the

National Monetary Commission

war. The war that broke out in July, 1870—it was declared by the legislative body on the night of July 14-15—was to show what an important financial machine this establishment was for the Government, as well as the aid it was to give it.

At the beginning of hostilities the Government had recourse to it, and as early as July 18 borrowed 50,000,000 francs.

On August 12 a law decreed that the notes of the Bank should have legal currency and forced currency—that is to say, that every creditor should be obliged to accept the notes instead of coin and at the same value as current coin; and by forced currency it is scarcely necessary for us to explain that we mean the right of the Bank which issues the notes not to redeem them in specie. The same law raised the maximum of bank-note issue to 1,800,000,000 francs; then it authorized the circulation of 25-franc notes.

On August 14 the total issue was increased to 2,400,000,000 francs, and later to 2,800,000,000 (December 29, 1871).

The first defeats of the French armies brought about the fall of the Imperial Government. A provisional government formed by the Paris deputies followed. As it was composed of well-known political men, and as prominent men of several parties gave it their support in order to preserve domestic order, in the presence of an invading enemy, the Government of September 4 was accepted and obeyed. The Bank continued to act in its relations with it as it had toward the regular government.

Evolution of Credit and Banks

This new Government sent a delegation into the provinces to organize armies. Most of its members lived in Paris, which was occupied a few days later (September 19, 1870) by the Germans.

The Bank followed a similar course. M. Rouland, the governor, remained at Paris with Deputy Governor M. de Floem; and M. Cuvier, the other deputy governor, accompanied by M. O'Quin, went to Tours, where the delegation of the provisional government was sitting.

During this terrible period the Bank helped the State, both in Paris and in the provinces, by means of loans. Here we give the list:

Advances of the Bank of France to the State at the time of the Franco-Prussian war, 1870-71.

	Francs
1870—July 18	50,000,000
August 18	50,000,000
August 19	40,000,000
September 24	75,000,000
December 5 (Paris)	100,000,000
December 5 (Tours)	100,000,000
1871—January 11	400,000,000
March 13	50,000,000
April 15	75,000,000
May 17	150,000,000
May 30	90,000,000
June 10	50,000,000
Receivers-general of Metz and Strasburg	30,000,000
July	210,000,000
Total ^a	1,470,000,000

Almost 1,500,000,000 francs.

^a The Bank also paid into the Treasury in 1873, 150,000,000 francs in gold. (Treaty of June 2, 1873.)

National Monetary Commission

The interest on these loans was fixed at first at 6 per cent, which was the discount rate at that time. After January 22, 1871, the interest rate was lowered to 3 per cent. The guaranties of these loans were treasury notes. First of all in the treaty of January 22, 1871, it was agreed between the Government and the Bank that the Government should reimburse the sums loaned it out of its first available resources, either ordinary or extraordinary. But circumstances were such that these sums were paid back only at the end of a certain time.

In the same way the Bank advanced a sum of 200,000,000 francs to the city of Paris (after its surrender on January 28, 1871) to pay the war contribution due according to the terms of the surrender. This loan which, together with the expenses incurred in negotiating it, rose to 210,000,000 francs, was arranged at the discount rate, and the sum was to be redeemed by the city of Paris in six months. This debt was really cancelled only in 1875.

These facts show that the Bank was able to play its part in these difficult times and to act effectively to help the public authorities in the hard and painful task they had to perform.

As a precautionary measure, as soon as the occupation of Paris was feared, the Bank had sent to the provinces part of its cash, the plates for the bank notes, and the new notes in a great many boxes which were labeled in such a way as to disguise their contents. This measure was far from being useless, both against the foreign enemy

Evolution of Credit and Banks

and the domestic mob. The foreign enemy, it is true, could not, because of the private character of the Bank, consider its wealth as spoils of war, without trampling under foot international law. The case would have been entirely different had the Bank been a State bank. This is an advantage not to be neglected, and it is not taken into account often enough when the other numerous and certain disadvantages of a state bank are being enumerated.

As to the insurrection which broke out in Paris on March 18, 1871, which set up a government called the "Commune of Paris," it turned for financial help to the Bank. It was only because they were forced and constrained that the Bank directors, living then in Paris, gave successively several million francs to the delegates of the finances of the commune. The sum thus turned over reached 16,000,000 francs. The city of Paris then had a credit of 9,400,000 francs at the Bank. In the end the State and the city of Paris made themselves responsible for a part of the amount, and the Bank had to charge the rest to profit and loss. At any rate the Bank should consider itself rarely fortunate in not having been systematically looted by the insurrectional government of the commune.

But these are abnormal conditions and not to be too much insisted on. They must simply be taken into account for the moral prestige which they gave the Bank and which it deserved in this circumstance.

National Monetary Commission

Let us now review as a whole the operations of this institution during the "terrible year." To do this we need only give the figures of the chief accounts during the critical years; that is, until 1874, when the reserve at the Bank went back to its average figure before the war. This table will also help us to explain the panic of 1873. In this period, too, the large war loans of June, 1871, and July, 1872, were made.

Evolution of Credit and Banks

[All figures denote millions of francs, except under the head of bills discounted.]

Year.	Average reserve.	Average notes in circulation.	Number of bills discounted.	Sum total of discounts.	Discount rate.			Individual current average balance.	Loans on securities.	
					Maximum.	Minimum.	Per cent.		Total sums loaned.	Average discounts.
1870	1,130.7	1,544.3	4,687,762	738.1	6	2.5	402.6	542.0	121.6	
1871	551.5	2,075.2	2,432,412	8,177.2	6	5.0	381.8	333.8	123.6	
1872	728.1	2,400.8	5,711,554	13,457.2	6	5.0	297.4	345.8	71.6	
1873	762.8	2,856.6	6,781,420	21,299.4	7	5.0	198.8	562.9	114.8	
1874	1,130.1	2,596.9	6,947,223	12,240.5	5	4.0	231.0	489.6	103.7	

^a Note that in 1873 there were included in this total almost 1,300,000,000 francs of treasury notes.

National Monetary Commission

The two columns of the sum total of discounts and of average discounts clearly show the rôle in financial and economic credit which the Bank then fulfilled. Before 1870, and during 1870 even (for the first quarter), the sum total of discounts fluctuates between 6,000,000,000 and 6,500,000,000 francs; the average of discounts fluctuates around 500,000,000 to 600,000,000 francs. After 1870 the sum total of discounts increased and reached over 14,500,000,000 francs in 1873 (a panic year), and naturally, too, the average discounts rose in the same proportions and attained to almost 2,300,000,000 francs in 1873. The average reserve went down on the contrary; in 1871 it was half what it was in 1870. It reached the figure it attained before the war only in 1874. But in contrast to it, the circulation made rather rapid progress; in 1872 it reached 2,400,000,000 francs. This same year (1872) the law of July 15 authorized the Bank to raise its maximum of issue to 3,200,000,000 francs. That was a useful measure, because in 1873 the preceding limit of 2,800,000,000 francs was found to be surpassed by the average amount of circulation. During these difficult years the issue of bank notes rendered great services both as a monetary measure, properly so called, and as a means of discount:

As a monetary measure in that the Bank had been authorized by the law of August 12, 1870, to issue 25-franc notes, and later by the law of December 29, 1871, to issue 10 and 5-franc notes. We were no longer at a time when in the midst of a panic—as in 1847-48—the Bank was afraid of issuing 50-franc notes. These notes circulated without difficulty; at the beginning of the war,

Evolution of Credit and Banks

it is true, when the law of August 14, 1870, raised the maximum issue of the Bank to 2,400,000,000, there was indeed a difference of 15 per cent between the notes and coin, but that was not for long. The loss of the note in comparison with gold quickly fell to 1 and even one-half per cent. In reality these notes, especially those of small denominations—25, 20, 10, and 5 francs—always circulated at their face value.

The increase in discount is explained, moreover, by the great activity in economic production which followed the war. France had not lost her vitality. She had suffered trials. Much capital had been destroyed in unproductive ways. She had to fill up the void. It is a sort of natural law of upbuilding which acts on occasions like this for social organisms which are still healthy, just as it does for physical organisms.

The following table shows the progress of our foreign commerce during these years. It has to do with special commerce.

[Million francs.]

	Imports.	Exports.	Total.
1870.....	2,867.4	2,802.0	5,669.0
1871.....	3,566.7	2,872.5	6,439.2
1872.....	3,570.3	3,761.6	7,331.9
1873.....	3,554.8	3,787.3	7,342.1
1874.....	3,507.1	3,704.0	7,208.1

This growth in our foreign commerce, which in 1873 was nearly 1,700,000,000 in comparison with 1870 (a year which shows about the average of the ten preceding years), is all the more significant in that France had lost Alsace-Lorraine, and with Alsace some very important industrial centers.

National Monetary Commission

This commercial progress, together with the investment of French capital abroad (making France a creditor of many foreign countries for the interest on very large sums), explains how it was possible to meet the war indemnity of 5,000,000,000 francs without paying more than a small balance in actual coin and without depriving the country of specie.

The market at home was not less active than foreign trade; the discounts of the Bank are an evidence of this. In spite of the terrible crisis the country had passed through credit was not affected a single instant. An example of this is in the Bank's almost complete collection of the commercial bills, the time of payment on which had been extended, and which in the provinces, as well as in Paris, amounted to a total of nearly 900,000,000 francs. The extending of the time of payment had been a necessity. When France was invaded by the enemy, when all able-bodied men were in the army, during the months when Paris was occupied, trade and industries concentrated all their efforts in providing for everybody in general and for the troops in particular. So payments had to be postponed, and laws and decrees were made to extend the rights of creditors up to the 1st of July, 1871. The Bank of France seemed destined to be affected by these measures and to run the risk of heavy losses. The commercial bills, which were part of its "portfolio," and payment of which was extended from August 13, 1870, to July 12, 1871, amounted in Paris to 630,000,000 and in the provinces to 238,760,000 francs.

Evolution of Credit and Banks

	At Paris.	In the provinces.
Repayments made before the expiration of the last extension.....	361,000,000	234,673,500
Remaining due with additions in 1872.....	273,312,000	4,272,000
Repayments in 1872.....	266,520,000	3,549,500
Remaining to be collected.....	6,792,000	722,500

There were other additions in 1873 and in 1874, but in the end the Bank lost not more than 7,000,000 of the 868,000,000 francs of bills on which the time of payment had been extended. That represents a loss of about 0.8 per cent which, under the circumstances, was very small.

Assuredly it is well to note that the Bank of France discounts only first-class paper, with three signatures, or two signatures with collateral security. Many of its commercial bills were bills rediscounted for bankers. Still, in view of the disasters France had then suffered, it is evident that the slight loss in discounts shows strict regard for meeting payments in commercial and industrial circles. Discount, moreover, in France is always a very safe banking operation, provided it is carefully watched. The material for discount is good; as a result of the qualities of prudence inherent in the character of the people, even the smallest shopkeepers are mindful of the bills they have to meet and honor them.

The Bank of France—thanks to the successive extension of its right of issue to 1,800,000,000 francs, then to 2,400,000,000 francs, soon after to 2,800,000,000, and finally to 3,200,000,000 francs in July, 1872—was able to meet the monetary situation and the needs of credit.

National Monetary Commission

The Government has never hesitated any more than the chambers to raise the limit of issue higher and higher. We may even ask what is the use of this legislative restriction on the maximum of issue. In any case as needs arise, the Bank has been able to fulfil its function of relieving commercial discounts by its notes whenever necessary. Placed under the same conditions, the Bank of England, saddled with the law of 1844, could not have rendered such services as has the Bank of France. It is true that in times of panic in London they do not hesitate to loosen the shackles which Robert Peel so unfortunately forged, and so there comes about the curious paradox that the law of 1844, established to safeguard the Bank of England in times of panic, becomes during those very panics an awkward check, from which the Bank is provisionally freed only to have the check put on again when times are normal and there is no use for it.

We can see by examining the table inserted above, in which are given the average totals for the principal accounts of the Bank, that the discount rate constantly rose from the last months of 1870 to 1874. If its maximum did not rise above 6 per cent, its minimum did not go lower than 5 per cent during the years 1871 and 1872. In 1873, because of the crisis that took place at this time, the maximum discount rate exceeded 7 per cent. The fact to note here is that during the four years from 1871 on, the average discount rate did not go below 4 per cent. Now, in the years preceding the war of 1870-71, we must go back to 1864, a year of acute panic, to find an average higher than 4 per cent. The result is that from 1871 to

Evolution of Credit and Banks

1874, inclusive, the dividends sent out to shareholders of the Bank reached figures unknown till then.

Here is a table giving the average rate of discount and the net dividend per share. It allows us to make a rapid comparison.

Year.	Average discount rate.	Net dividend.
	<i>Per cent.</i>	<i>Francs.</i>
1861.....	5.52	147
1862.....	3.77	158
1863.....	4.64	165
1864.....	6.50	235
1865.....	3.72	154
1866.....	3.67	156
1867.....	2.71	107
1868.....	2.50	90
1869.....	2.50	107
1870.....	3.99	84
1871.....	5.71	300
1872.....	5.15	320
1873.....	5.25	350
1874.....	4.30	285
1875.....	4.00	200
1876.....	3.40	145
1877.....	2.28	95
1878.....	2.18	95
1879.....	2.58	110
1880.....	2.81	150

Only superficial minds could be astonished at the contrast between the large profits realized by the Bank in panic times and the general depression which panic creates. The Bank, a house of refuge for credit, provided with the right of issue, but having to safeguard the underlying supply of available funds constituted by its metallic reserve, intervenes, to be sure, in panics when the case is urgent. Automatically it gets its services paid for through the necessity of protecting its reserve.

National Monetary Commission

When the cause of the panic is a long and costly war like that of 1870-71; when people dread very serious, unforeseen events (and they happened in this case), the Bank with the sole right of issue must use but not abuse its privilege. This is what the Bank did in 1870-71 and 1872. It covered the risk of having its reserve depleted, and the risk which the extensions of payments on bills might have brought about, by keeping its rate of discount at an average rate, which does not seem to have been too high, given the average rate of interest on money at that time. So there is no occasion to be surprised at the large dividends of the years 1871, 1872, and 1873. Do we reproach doctors and apothecaries with making more profits in times of an epidemic than in normal times?

III.—THE LARGE LOANS AND THE PAYMENT OF THE WAR INDEMNITY.

When the preliminaries of peace were signed at Versailles in February, 1871, it was stipulated that France should pay Germany a war indemnity of 5,000,000,000 francs. In article 7 of the treaty of Frankfort (May 10, 1871) the payment of this indemnity was arranged on the following terms:

	Francs.
Thirty days after order is reestablished in Paris.....	500,000,000
During the year 1871.....	1,000,000,000
May 1, 1872.....	500,000,000
March 2, 1874.....	3,000,000,000
Total.....	5,000,000,000

Besides this the French Government had to pay on March 3 every year interest at 5 per cent on the last 3,000,000,000 francs, and at the same time it could (by

Evolution of Credit and Banks

giving three months' notice) make advance payments on the final payment due March 2, 1874.

As to the method of payment, it could be paid in gold or silver, in bank notes of the Bank of England, the Bank of Prussia, the Royal Bank of the Netherlands, the National Bank of Belgium, in bills to order, or in negotiable bills of exchange of the highest character for the full cash value on these same countries.

Here we have to do with banking operations, real banking operations, the foundations of which are both the public credit, regarding the money borrowed by the State to pay off its debt, and private credit, taking into account the situation of France in this respect both with reference to the domestic and the foreign money markets. It seems to us that, in a treatise of this kind on the evolution of credit and credit institutions in France, all these operations should be reviewed in their essential points.

The exchange for the thaler was fixed at 3.75 francs; that of the German florin at 2.15 francs. It was also arranged, after the treaty of May 10, that 125,000,000 francs could be paid in notes on the Bank of France; then it was agreed that 98,400 francs still owed by Germany to the city of Paris on the accounts of the payments made by Paris on the 200,000,000 francs of the war indemnity should be carried over to the account of the French Government. Part of the railroad system of the East comprised in the annexed provinces having been given to Germany for the price of 325,000,000 francs, this sum was also to be deducted from the 5,000,000,000 francs.

National Monetary Commission

The French Government remained in debt to the company for that sum.

The final amount to be paid to Germany may be shown thus:

War indemnity.....	Francs.	5,000,000,000
Payments made on account:	Francs.	
Railroad Company of the East.....	325,000,000	
City of Paris.....	98,400	
	<hr/>	325,098,400
Payments made in notes of the Bank of France.....	125,000,000	
	<hr/>	450,098,400
Difference.....		4,549,901,600

These 4,549,901,600 francs had then to be paid in German money in a certain number of payments; that meant that the payments made in English or Dutch money had to be converted into German money. The exchange therefore fell upon the French Government. We have been dealing as yet only with the principal. We must add the interest, which was 301,145,078 francs, and this, added to the capital stated above, made a total of 4,851,046,678 francs.

On this basis let us give the results of the two loans made by the French Government to pay the indemnity.

The first was authorized by the law of June 20, 1871. It was made in government 5 percents and by public subscriptions. The price of issue was 82.50 francs.

Whereas the State asked for subscription to 134,000,000 francs of rentes, representing an actual capital of 2,000,000,000 francs, 296,821,760 francs of rentes (or nearly 297,000,000) were actually subscribed for, representing a capital of 4,897,500,000 francs. Please note

Evolution of Credit and Banks

that this result was obtained in June, 1871, not long after the civil war, and while the monuments of Paris were still smoking from the fires set by the insurgents of the commune.

About a year later another loan was authorized by the law of July 15, 1872. The amount was for 3,000,000,000 francs at 5 per cent. It was issued at 84.50 francs. The success was much greater than that of the first loan, the results of which had surprised more than one experienced financier.

By the loan of July, 1872, France asked the public to subscribe for 207,026,310 francs of rentes. The subscribers called for the tremendous sum of 2,592,668,435 francs (almost 2,600,000,000 francs), which represented a capital of nearly 44,000,000,000 francs. The share of foreign countries in this enormous total was more than 26,000,000,000 francs; France's share about 18,000,000,000 francs.

To be sure we must take into account here the inflation of subscriptions through fear of having them cut down. Already in the case of the first loan subscriptions had been cut down more than half. Still, while making allowances for this inflation, it is none the less true that the anticipation which gave rise to it showed what confidence financiers in all countries and the public in general had in the solvency and credit of France.

Now the reason why France had good public credit was because its private credit—bank credit—had remained so good; and because in a few months the country had reacted with steady, vigorous, economic activity against the

National Monetary Commission

disasters it had suffered. This was shown in its foreign trade and the receipt of taxes.

The first loan produced 2,225,000,000 francs; and out of this sum 1,561,000,000 (or 70 per cent) were turned in to pay the war indemnity.

The second loan—of course, after the cutting down of subscriptions—produced 3,500,000,000 francs, of which 3,002,000,000 francs were used in payment to Germany—that is, 87 per cent of this loan.

The principal of the indemnity was paid by these two loans as well as the expenses, which amounted to a little more than 14,500,000 francs. As to the interest, that was deducted from the general funds of the budget. We are going to enter into some explanations relating to the operations brought about by these payments; but first of all we must review in a comprehensive table the categories of payments, which are three in number. It will then be easier to understand how France prevented a large amount of specie from leaving the country, and how it reduced the payments of this kind to a very small sum.

METHOD OF PAYING THE WAR INDEMNITY.^a

FIRST CATEGORY.

COMPENSATIONS.

	Francs.
Money in account with the Railroad Company of the East.....	325,000,000
Money in account with city of Paris.....	98,400
Total first category.....	325,098,400

^a The payments which were to have been made during 1871, then May 1, 1873, then March 2, 1874—as we have said above—were completed before that date; the deposits for the payment of the last 3,000,000,000 francs were made between August 29, 1872, and September 5, 1873.

Evolution of Credit and Banks

SECOND CATEGORY.

BANK NOTES; GERMAN COIN; SPECIE.

	Francs.
Bank of France notes.....	125,000,000.00
German notes and coin, brought in by the invasion...	105,039,145.18
French gold coin.....	273,003,058.10
French silver coin.....	239,291,875.75
Total second category.....	742,334,079.03

THIRD CATEGORY.

LETTERS OF EXCHANGE.

German funds in discharge of indebtedness.....	2,799,514,183.72
Funds other than German, including the marks banco.	1,448,812,190.54
Total third category.....	4,248,326,374.26
General total of three categories.....	5,315,758,853.29

As we see, out of this enormous sum of more than 5,315,000,000 francs only a little more than 378,000,000 francs were paid in French coin. And in reality only 275,000,000 francs in French coin left our territory^a directly for the indemnity, for France bought 93,000,000 francs worth of silver bars from the reserve of the Hamburg Bank and had them minted in France. These 378,000,000 francs were paid in gold pieces and silver coined in 20, 10, and 5-franc pieces. You will notice that the number in question is not an exact multiple of five. This anomaly is explained by the fact that in this figure are counted the prices of the money bags and sacks.^b

The operation was conducted with skill and good judgment. It would have been difficult to avoid a monetary crisis in France if the method of payment of the third

^a We shall see later that this operation caused nevertheless some rather heavy gold exports.

^b The price of the money bags was fixed at 0.10 franc, and that of the sacks at 1.65 francs.

National Monetary Commission

category had not been resorted to. Such a crisis would have been especially fatal to trade since at that time discounts were increasing in very large proportions. At this point we shall recall the average figures for the years 1871-72 and 1873 of the reserve, the notes in circulation, and the discounts of the Bank of France.

[Million francs.]

Year.	Average reserve.	Average of circulation.	Average of commercial discounts.
1871.....	551.5	2,075.2	1,164.0
1872.....	728.1	2,400.8	2,089.4
1873.....	762.8	2,856.6	2,299.4

In regard to gold, a few purchases were made on the spot so successfully that the figure of 275,000,000 francs indicated above has to be cut down again. Barely 250,000,000 francs were taken out of active circulation in France.

On this occasion the Bank of France by an agreement of May, 1873, lent 150,000,000 francs in gold to the State, which formed the greater part of the sum paid in gold.

It was not the payment itself of the indemnity which at this time made France lose a part of her metallic stock, a part which seems to have far exceeded the sum of 250,000,000 francs. But we shall see that by its rebound the payment of the indemnity indirectly caused gold to leave the country.

The third category of methods of payment is the most interesting, because it touches most closely commercial credit and banking operations. The method adopted was simple; it is the one any bank or merchant would have

Evolution of Credit and Banks

followed in paying a debt contracted with a foreigner. Moreover, the Government from the start was beset with bankers and dealers in exchange, who came and offered foreign paper. France sent as much capital as possible abroad by buying all paper for exchange, and all the possible bills it could get, no matter on what country. Then as soon as the capital was collected in the form of these foreign bills, it sent them to Germany. For the first 2,000,000,000 francs Germany had the English, Dutch, and other foreign paper converted into German paper at France's expense. France finding the cost of exchange too high—it was more than 11,000,000 francs—took this business upon itself and gained by it. This conversion was made easily enough at London, because Germany at that time was in debt to England for loans made during the war in the form of short-term notes, and also for supplies.

The number of foreign bills obtained by the French Government rose to more than 120,000. To find so many bills three means were used:

1. The payment in foreign funds of subscriptions made in France as well as of the anticipatory payments made at home or abroad was encouraged by the loans of 2,000,000,000 and 3,000,000,000 francs.

2. The second means consisted in an arrangement which was made at the time of the borrowing of 3,000,000,000 francs from several banking houses: an exchange operation was combined with the underwriting of the subscription to the loan by these banking houses.

3. The third means was to buy foreign bills directly on the market.

National Monetary Commission

The first means (payment of the loan subscriptions in foreign funds) gave the treasury a very large sum, viz, 1,773,000,000 francs.

The second method rested on the following agreement: As in the case of the loan of 2,000,000,000 francs the Government turned to large banking houses which would have been able, unassisted, to underwrite the loan. This was a useless precaution, as we have seen; however, in such troublous times and in spite of the success of the first loan, recourse was had for the second loan to a group of bankers. In the agreement signed with them it was stipulated that they should furnish 700,000,000 francs in foreign paper, which allowed them to receive a rather large commission. It was also a way of interesting these houses in the rate of exchange, since they had to buy exchange, and would not, therefore, force the price up. Fifty-five banking houses belonging to all countries, some of which were representing other houses, signed this agreement.

The first and second methods brought into the treasury 2,473,000,000 francs in foreign exchange. So 1,775,000,000 francs remained to complete the figures given above.

This last sum was procured by the third method, namely, direct purchase by the Government.

When we go to the bottom of the matter, we see that what facilitated these operations was the confidence which the world at large had in France, a country rich in capital, whose activity since the war was a sign of great vitality and productive power.

This is the place to remark on the export of gold indirectly caused by the payment of the indemnity. In selling all the foreign paper they could to the French

Evolution of Credit and Banks

Treasury, the bankers were creating a scarcity of available French effects on foreign markets; the result was that those who owed money abroad were obliged to pay by sending gold, because exchange having been sold to this large new client, the State, had become very dear.

It is not for us to dwell at this point on the arbitrage operations that the Government encouraged between certificates of rentes that were fully paid up and those that were not; facts of this sort do not enter into the special discussion of banking operations that we are engaged in here.

A few quotations of exchange on London—London exchange being the best index in judging money stringency—will show the fluctuations which our metallic stock underwent as a result of these operations:

<i>Paris exchange on London.</i>	
	Francs.
1871—June 27	25. 22
September 26	25. 45
October 17	26. 18¾
December 26	25. 73
March 26	25. 26
November 12	25. 68½
March 4	25. 33
June 10	25. 57½

The quotations given here are the highest and lowest reached during this period.

The average price of government purchases on London was 25.494 francs. The highest price quoted on London was 26.18¾ francs gold, and the price of 26 francs was kept up for two months. From the close of the year 1872 exchange became more normal. This was a result of the agreement made with the syndicate of bankers.

National Monetary Commission

Here is a short table showing the fluctuations of the premium on gold, 20-franc pieces, and bullion:

[Premium per 1,000.]

Year.	20-franc pieces.		Gold bars.	
	Maximum.	Minimum.	Maximum.	Minimum.
1871.....	25	8½	29	1
1872.....	11	¼	16	3
1873.....	9¼	¾	12½	8
1874.....	1½	Par.	10	Par.

NOTE.—In the loan which the Bank of France made to the State, to make advance payments, it furnished the 200,000,000 francs of the loan in gold. It seemed preferable, then, to ask the Bank for gold rather than notes. The reason was that at that time the Bank had a reserve of only 100,000,000 francs in notes before reaching the limit of its issue. It did not care to raise this limit for fear of causing the bank note to lose credit. It was deemed better to leave the Bank in possession of its notes to help it in making discounts. If it had given bank notes to the State and used gold for its discounts, a part of this gold would have been exported, and the case would have been the same after all as giving gold to the State, except, however, that the State gained gold thereby—discharging indebtedness at par—and the bank note in the meanwhile kept its credit.

It is important to emphasize here how much progress France had made since the beginning of the century in the understanding and habits of credit in connection with the issue of notes; for when in 1805 it was rumored that Napoleon had carried off gold from the Bank in order to make war in Germany a mad panic broke out.

PART III.

THE BANK OF FRANCE AND THE DEVELOPMENT OF CREDIT, 1875 TO THE PRESENT TIME.

INTRODUCTORY.

Extension of the credit companies.—The Bank of France remains the center of the credit organization in France.—Its gold reserve increases.—The railroad panic. The agreement of 1883.—Panic of 1882 and 1889.—The panic of the local banks.

This third part comprises the study as a whole of the period between 1875 and the present time.

It is a period especially remarkable for the development of the great credit companies, first in France, then abroad, by means of branch offices.

As the companies expanded, they tended to become institutions somewhat resembling the English joint stock banks. They were not, properly speaking, banks for financing industrial enterprises. They continued to carry on large operations in disposing of securities, but were principally concerned with selling securities that might be called official—state and town funds, etc. They succeeded in building up an extensive discount business. Their deposits, in fact, grew to large proportions. The nature of these deposits and the character of their clients, influenced the nature of their operations in making them avoid taking risks. It is through these companies that the surplus capital, not used in France, is invested abroad.

The Bank of France still remains the center of the credit organization in France. Even if it makes discounts directly to clients, it is especially and above all a bank of rediscount for bankers and credit companies.

National Monetary Commission

Its rôle in this direction is becoming more and more clearly defined, in proportion as the business of the credit companies expands. As the savings of France increase its wealth, part of this wealth is converted into capital invested abroad, France becomes creditor of foreign countries, through the interest money that its citizens receive, and so shows a favorable rate of exchange. The country's stock of coin increases; as a result of this the Bank of France sees its gold reserve grow. Its silver reserve, on the other hand, tends to diminish. In fact, since France stopped coining silver, owing to the depreciation of the white metal, it is bimetallist on its domestic, although gold monometallist on the foreign market. Thus the gold reserve of the Bank of France has lately gone beyond 3,600,000,000 francs. Its silver reserve is lowered only by the use made of 5-franc pieces to recoin fractional money.

This accumulation of gold has another cause. The note of the Bank of France enjoys an unquestioned credit; it is much in demand, and tends to replace gold coin in circulation. It has, therefore, helped to bring back to the coffers of the Bank a part of the stock of gold in circulation.

This period witnesses, too, a still more marked decline in the rate of interest. This is due to the abundance of capital, and also to the ease with which it is placed at the disposal of the public by means of the credit societies and their mode of procedure, so different from that of private banks.

Of course, this evolution did not take place without crises and difficulties. Prosperous times, which always

Evolution of Credit and Banks

tend to produce excessive and risky speculation, are followed by periods of liquidation—of reflection, one might say, which in turn is nothing but the natural consequence of the conditions brought about by such over-speculation.

In this case, one of these periodic crises was complicated by a crisis in the national finances caused by too great haste in completing the railroad system of France. Prospective results loomed too large in the distance, and dwindled as they came near. The whole thing ended by the State's making an arrangement with the railroad companies, which was a sort of necessary liquidation of affairs, and was called "the agreement of 1883."

However, in spite of many errors and useless State expenditures, tax returns came in regularly, and more prosperous years produced a surplus and furnished abundant resources to the growing budgets. The price of state stock rose steadily, as a natural result of the general lowering of the rate of interest on money, owing to the abundance of capital. This rise led the Ministers of Finance to make conversions. The profits of these conversions, however, were quickly swallowed up in the rising tide of expenses. There was a dark side to the picture. The economic evolution was not accomplished without difficulties and friction. We shall mention the panic of 1882, simple enough in its causes; then the one of 1889, which contains valuable instruction. The Comptoir d'Escompte was destroyed by it, but soon rose from its ashes and resumed the work interrupted by the ruinous mistakes of a bad management. Henceforth it

National Monetary Commission

extended its activities by following a wise and profitable plan of business.

The local or provincial banks suffered from the extension of the agencies of the credit companies, and up to a certain point also from the increase of the branch offices of the Bank of France, which has opened, especially of late years, branches or suboffices and made "bankable" many affiliated towns in numerous localities. Will the local banks be able to adapt themselves to this new situation? Certain ones made the attempt, it seems, and were changed to district credit companies; others disappeared; still others remained, and confined themselves to certain special functions.

Finally, we shall take occasion to explain the conditions under which the State in 1897 renewed the privilege of the Bank of France. It asked services of the Bank in the shape of loans and a share in the profits. The Bank, however, remained self-governing and independent of the State. We shall have to express fears for the future in what concerns both the Bank of France and the credit companies, with regard to the restrictive measures that are being planned against them by a certain political and social faction.

CHAPTER I.—*The situation of France after the war. A glance at the development of saving and savings institutions.*

Creating capital by economy is at the very foundation of French finance. This particular characteristic became still more marked after the war of 1870-71. There was need of it, to be sure, to heal the country's wounds, to restore its military equipment, to organize new industrial undertakings or transform existing ones. The savings banks are an indication, especially in France, of the development in the creation of capital. In the following table we give for every five years the balance due depositors on December 31 from the private savings banks, and also, after 1885, the balances due depositors on the same date from the National Savings Bank, adding to this the independent means of the private savings banks.

[Million francs.]

Year	Private savings banks.		Balance due depositors December 31, by National Savings Bank. ^a	Grand total.
	Balance due depositors December 31	Independent means of the banks December 31.		
1875-----	660.4	21.0	-----	681.4
1880-----	1,280.2	29.9	-----	1,309.4
1885-----	2,211.3	47.5	154.1	2,412.9
1890-----	2,911.7	73.3	413.4	3,398.4
1895-----	3,395.4	105.9	753.4	4,254.7
1900-----	3,264.0	138.3	1,010.0	4,412.3
1905-----	3,376.5	166.5	1,278.0	4,821.0

^a Created by the law of April 9, 1881, under state guaranty.

National Monetary Commission

The quinquennial average of the years which preceded the war of 1870-71 of the balance due depositors on December 31 was 615,000,000 francs.

It is seen, then, in the thirty years from 1875 to 1905 that the total funds of the French savings banks increased from 681,000,000 to 4,821,000,000 francs, or nearly 5,000,000,000 francs, increasing sixfold. And, as we have said, this is only one of the signs of the growth of capital.

In this interval the population had not increased to any great extent; it was estimated in 1875 at 36,500,000, and in 1905 at a little over 39,000,000 inhabitants.

And this progress in saving was made at a time when the expenses of the budget were increasing.

Here is a list for the same years as in the previous table of the resources put at the disposal of the Minister of Finance through taxes and public revenues of all kinds. The resources called extraordinary, which come from loans, do not enter into the calculation.

	Ordinary receipts of the budget.	Francs
1875	-----	2,705,300,000
1880	-----	2,957,000,000
1885	-----	3,056,600,000
1890	-----	3,229,400,000
1895	-----	3,416,000,000
1900	-----	3,814,000,000
1905	-----	3,766,000,000

So, in thirty years the ordinary receipts of the budget increased by 1,000,000,000 francs—no small additional burden for the country. The quinquennial average of ordinary receipts for the years preceding 1870 was 1,800,000,000 francs. The expenses of the war increased the ordinary receipts by means of new taxes to

Evolution of Credit and Banks

2,406,000,000 francs in 1872, and to 2,679,500,000 francs in 1873.

The free deposits of securities at the Bank of France increased in large proportions (in spite of the competition of the great credit societies which organized an important service for this operation).

For the ten years preceding the war of 1870-71 the average number of depositors was about 25,000 and the average value of securities on deposit was 1,300,000,000 francs. The following table will give an idea of this increase:

[Million francs]		
Year	Number of depositors	Securities on deposit Current value on Bourse December 24
1871	20 693	937 5
1875	24,690	1,456 2
1880	27,168	1,901 2
1890	39,899	3,113 1
1895	55,975	3 988 5
1900	73,620	4 939
1905	89,979	6,980
1906	92,508	7,233

The increase of transferable securities in general has been very large in France since the war.

Léon Say, in his remarkable report on the payment of the war indemnity in 1875, estimated the value of foreign securities owned by the French at from 10,000,000,000 to 12,000,000,000 francs. It is three times as much to-day. It is not our intention to enlarge upon this question, which must be treated by another author in another

National Monetary Commission

study. It will be enough for us to give these few figures, the first one taken from M. Say, and the others from M. Newmarck.

Estimate of foreign negotiable securities owned by the French.

	Francs.
1875 -----	10,000,000,000 to 12,000,000,000
1880 -----	13,000,000,000 to 15,000,000,000
1890 -----	18,000,000,000 to 20,000,000,000
1900 -----	25,000,000,000 to 27,000,000,000
1903 -----	28,000,000,000 to 30,000,000,000

The securities listed on the official Paris Bourse (according to the estimate of December 31, 1902) represent the sum of 130,000,000,000 francs, divided into 64,000,000,000 francs in French securities and 66,000,000,000 in foreign securities. If to this are added securities not officially quoted, and negotiable at the bank, estimated at from seven to eight billion francs, we have a total of nearly 140,000,000,000, of which about 90,000,000,000 are French still, according to statistical estimates based partly on facts and partly on theory.

Without yielding too much to the magic of these figures, it is certain that "movable wealth," to use a current expression, has been much increased in the last thirty years. And this increase of capital in France is not the special work of a group of capitalists but for the most part of the middle-class citizens, as we have already had occasion to point out.

But we will not insist further on the fact that a large amount of capital was created in France by means of economy; one need not be either an expert financier or a professional statistician to discover it. There is no end

Evolution of Credit and Banks

of evidence. Moreover, the consequences of this accumulation of capital helped to emphasize still more the larger supply of which it was the object. The rate of interest was lowered, in general, and the discount rate in particular. The State profited by this to make successive conversions of its stock. The law of November 27, 1883, made the conversion of 5 per cent stock to 4½ per cent; that of November 7, 1887, converted the 4½ per cent and 4 per cent stock to 3½ per cent; then that of January 17, 1894, converted the 4½ per cent to 3½ per cent; and, finally, that of July 9, 1902, converted the 3½ per cent to 3 per cent. These conversions involved a total capital of more than 21,212,000,000 francs, and were all successful.

If we have called to mind these general points, it is with a view to emphasizing one thing: The sources of the accumulation of capital always end by influencing the manner of organization and working method of the credit institutions of a country. It is in national habits and character that these have their principal roots. This will appear presently, when we reach the study of the credit companies. But, first of all, we must describe briefly the crisis of 1882, then that of 1889, outlining at the same time the operations of the Bank of France during this period.

Evolution of Credit and Banks

CHAPTER II.—*The crises of 1882 and 1889—A brief survey of the operations of the Bank of France from 1875 to 1889—The Comptoir d'Escompte.*

The construction of new lines of railroads after 1870-71.—The Freycinet programme.—Too small estimate of expenses.—Creation of redeemable government stock.—Capital borrowed on redeemable 3 per cents.—Extraordinary expenditures for public works, 1878-1882.—The State in difficulties.—The agreement of 1883.—Speculation from 1876 to 1882.—Investment banks float large issues.—Success of these issues.—The exaggerated rise in stocks.—The crash.—Intervention of the Bank of France.—First effects of the panic. The rate of discount rises.—The credit of the bank notes extends and increases.—Bank dividends resulting from the panic.—The Comptoir, during the war, meets all obligations.—Precautions taken to keep up relations between the foreign and home agencies.—The Comptoir continues its operations during the Commune.—It cooperates in 1871 in issuing 5-franc notes.—The Comptoir shares the loans made necessary by the war.—The deposits of the Comptoir after the war.—Fall in the price of silver. Business in the Far East.—Converting and unifying of the Egyptian debt. Rôle of the Comptoir.—Increase in total of discounts.—Founding of agencies in Australia and San Francisco.—Public works undertaken.—Competition of the other credit companies.—Continuation of the Comptoir for twenty years.—Conversion and loan operations.—Stagnation of business in 1887.—Political incidents, foreign and domestic.—Idle deposits.—First loans to Metal Company.—Absurdity of this speculation.—The Comptoir continues its loans.—Increased production of the copper mines.—The Metal Company is unable to meet engagements.—Intervention of the Bank of France.—Loan of 140,000,000 francs to the Comptoir.—How the loan was made.—Advantages of the monopoly of issue for the Bank.—Guaranty of the commercial paper of the Comptoir.—Good results of the liquidation of the Comptoir.—Reorganization of the Comptoir.

The period from 1875 to 1882 was a time of undoubted prosperity. This prosperity was destined to end in a panic brought about principally by two causes. One is time-honored, and both paves the way for panics and makes them more acute: it is over-speculation. The other was special and may be termed accidental, although it had a precedent: it was the too great and too hasty extension of our railroad system.

We shall consider the second cause briefly, recalling only the facts necessary to the present account.

After the war, the need of completing the railroad system was felt to be urgent. From 1871 to 1878 about 6,000 kilometers were put in operation. The railroad lines of general utility, which counted, in fact, 15,632 kilometers in operation in 1871, had 21,435 in 1878. The National Assembly had in its last sittings before adjournment approved an imprudent policy in this regard, and the policy was continued. A first experiment which led to the construction of a state system in 1878, one might imagine, would have dampened the ardor of the megalomaniac and optimistic partisans of the construction of many and extensive railroad lines. But nothing of the kind. A plan was concocted to endow France, in the course of a few years, with a complete railroad system, covering the country with a closely woven network. M. Freycinet prepared the outline of these great works, which were to include not only railroads, but also canals, harbor improvements, etc. This project was called after the name of its originator, the Freycinet programme.

Altogether, the length of lines decided upon in 1875, with those granted on the score of local utility, which were made to pass into the class of lines of general utility, and including the new lines, reached a total of very nearly 10,000 kilometers.

The first estimate placed expenses at about 4,000,000,000 francs. But it was soon clear that this figure would need to be increased by 3,000,000,000 or 4,000,000,000, for the originators of the scheme had counted without the unexpected: they had made much too low an estimate of the net cost, and had omitted to take into account that the Chambers would enlarge the original plan to a degree

National Monetary Commission

bordering on lunacy. Political high bidding was rampant also in the Senate, where it was usual to see more prudence than in the Chamber.

France soon became a great railroad workshop.

In order to meet the enormous expenses made necessary by this enlarging of the economic "plant" of France, Léon Say, Minister of Finance, created a new government stock—redeemable stock—the capital of which, divided into a series of 75 payments, was reimbursable by means of drawing lots for a period of seventy-five years. The original law was passed June 11, 1878. This stock, quoted at a par value of 100 francs, was sold in reality only in 15-franc fractions. It therefore resembled railroad obligations.

Up to December, 1880, the State had borrowed by this means:

	Francs.
Sum total of interest on government stock.....	52, 530, 360
Total nominal capital.....	1, 751, 012, 000
Total actually borrowed capital.....	1, 439, 845, 912

Ten years later, on December 24, 1890, the loans in the form of redeemable government stock had risen to—

	Francs.
Sum total of interest on government stock.....	127, 624, 395
Total nominal capital.....	4, 254, 146, 500
Total actually borrowed capital.....	3, 459, 359, 545

And here are the extraordinary expenses of the budget for public works from 1878 to 1882:

	Francs.
1878.....	557, 000, 000
1879.....	453, 000, 000
1880.....	538, 000, 000
1881.....	735, 000, 000
1882.....	663, 000, 000
Total.....	2, 946, 000, 000

Evolution of Credit and Banks

The normal loans on the one hand, treasury loans on the other, swelled our funded debt and our floating debt, the latter to enormous proportions. The State had undertaken the construction of a large number of scattered and unconnected railroads. Those which were in operation were bound to give poor results. In fact, some of them were administered by the State itself, others had been put into the hands of a trustee responsible to the State, and still others were farmed out to companies at rather burdensome rates.

Everything indicated that before long the State would be reduced to making terms with the great railroad companies, in order to escape from a troublesome burden, and to avoid also involving further the national finances. Such were the causes of the agreement of 1883.

Our purpose here is not to describe what happened on that occasion, but to show to what extent the public authorities were responsible for the speculative fever that seized upon France at that moment.

There were, too, other elements involved. Since 1876 certain banks which belonged rather to the category of speculative and investment banks, such as the *Union Générale*, the *Crédit Général Français*, the *Banque de Lyon et de la Loire*, etc., had begun to float stocks on the market, which they issued with a bonus. The movement spread. The public nibbled at the issues as if they were forbidden fruit. Times were prosperous, which of course helped greatly. The issues reached their highest point after 1879 especially. They were made in competition with the state loans. In spite of this avalanche, the

National Monetary Commission

average level of all stock quotations steadily rose. As may be seen by the table given below, the total sum of issues made from 1876 to 1882, when the crash came, rose to more than 9,000,000,000 francs.

	Francs.
1876.....	266,000,000
1877.....	1,716,000,000
1878.....	605,000,000
1879.....	3,053,000,000
1880.....	1,568,000,000
1881.....	1,223,500,000
1882.....	624,000,000
Total ..	9,055,500,000

These heavy issues, far from cooling public ardor, simply excited it. In 1881 the rise in stocks assumed proportions which were disquieting to all business men who kept their heads and were not carried away by the current. The Union Générale, which was the most active in promoting the bull market, pushed its shares so successfully, aided by the nameless complicity of the general infatuation, that from being quoted at 1,000 francs, at which its shares were held in January, 1881, they rose to nearly 2,900 francs at the end of the year. The Suez Company followed the same movement. The rise in stocks continued in spite of its exaggeration like an irresistible nervous impulse. The speculators seemed victims of a sort of St. Vitus's dance, inexplicable to anyone who is not familiar with the psychology of crowds. The first days of 1882 opened with shares of the Union Générale quoted at more than 3,000 francs and Suez at 3,440 francs. However, the speculators were beginning to be out of breath. There were no more

Evolution of Credit and Banks

purchasers for these securities, at least at this price. Then all of a sudden came the crash. By the end of January Union Générale fell to 950 francs; a few days later the company was declared insolvent. Suez, which represented a prosperous undertaking, did not go to pieces in this way, but the stock dropped 500 francs in a very short time.

With these facts as a starting point, we will now see what part was played by the Bank of France under these circumstances.

Let us give first the statement of the principal accounts of the Bank of France from 1876 to 1882:

[Million francs.]

Year.	Average reserve.		Average notes in circulation.	Total discounts	Rate of discount.		Collateral loans	Running ac- counts, average balance
	Gold.	Silver			Maxi- mum.	Mini- mum.		
					Per cent	Per cent		
1876----	1,987 3		2,484 0	7,396 7	4 0	3 0	290 0	360 6
1877----	2,196 0		2,489 7	7,569 0	3 0	2 0	376 0	473 8
1878----	2,072 7		2,339 0	7,603 4	3 0	2 0	409 0	411 0
1879----	2,115 0		2,199 0	7,261 0	3 0	2 0	402 0	421 0
1880----	1,974 0		2,305 4	8,697 0	3 5	2 5	325 8	411 5
1881----	604 5	1,219 5	2,576 4	11,374 0	5 0	3 5	1,123 5	468 2
1882----	906 6	1,140 0	2,732 3	11,322 2	5 0	3 5	884 1	493 1
1883----	982 7	1,045 0	2,926 1	10,827 3	3 5	3 0	664 6	416 0
1884----	1,020 9	1,004 0	2,928 1	10,385 2	3 0	3 0	626 5	387 0

A simple examination of the figures shows as early as 1880 and especially in 1881 the approach of the panic. The reserve began to fall as soon as 1880 to 1,975,000,000 francs; in 1881 it was only 1,824,000,000 francs; these, we must remember, are averages. But in 1881 the gold reserve, which was 648,000,000 francs on June 30, fell to 552,000,000 francs on December 31, showing a

National Monetary Commission

decrease of 96,000,000 francs. Because of this, the Bank raised the discount rate to 5 per cent as early as October 20, which diminished the drain upon the gold in its coffers. In comparison, the discounts increased from September to October; they rose from an average of 1,100,000,000 francs to a total of 1,320,000,000 francs. Finally, another fact which shows plainly the intensity of the speculative craze was that the total of loans on securities, which was 325,000,000 francs in 1880, rose in 1881 to 1,125,000,000 francs and after a decline was maintained at 884,000,000 francs.

However, raising the discount rate to 5 per cent on October 20 effectually checked the drain of gold from the coffers of the Bank, and on December 31, 1881, the reserve reached about 646,000,000 francs, or nearly the figure of the preceding June.

The Bank of France, therefore, was protected, or at least ready to withstand the shock of the panic in its acute stage. When the storm burst in January, the stockbrokers of Paris and Lyons, who had not paid sufficient attention to the consequences of this frantic speculation, could not meet their engagements. The Bank of France intervened at this moment and advanced 80,000,000 francs to the parquet of the Paris Bourse and 100,000,000 to that of Lyons—all this being secured by bills of exchange and collateral. These operations in the last days of January raised the figure of the discounts, which on February 2 reached 1,646,000,000 francs.

It is important to point out here that as a result of the elasticity of issue, the Bank could make discounts

Evolution of Credit and Banks

and loans with greater facility in proportion to the reserve; the maximum issue in 1881 was 2,825,000,000 francs, and in 1882, 2,953,000,000 francs.

It should be observed, too, that when the Bank, under some accidental circumstance, such as a panic, for instance, has been obliged to increase its issue, the figure reached has almost always been maintained afterwards. This was the case in 1883 and 1884. After a number of small declines the average for 1890, rose above 3,000,000,000 francs. At the same time the gold reserve tended to increase, showing that the bank note was accepted more and more as currency, replacing part of the gold in circulation. This phenomenon, which is easy enough to understand, began to be especially evident after the crash of 1882.

Moreover, dividends increased, a thing that always happens when the Bank intervenes in a panic to support the credit of the money market. The dividends of 1881 and 1882 were respectively 250 and 290 francs. The average of the preceding five years had been about 125 francs.

THE COMPTOIR D'ESCOMPTE AND THE PANIC OF 1889.

We left the Comptoir d'Escompte on the eve of the war. During the terrible ordeal of the invasion this establishment had to cope with many needs, and it fulfilled its duties as a commercial bank most honorably at this critical moment. It was at that time, next to the Bank of France, the largest discount house in Paris. It attempted to send for disposable funds from its foreign

National Monetary Commission

offices, but they did not arrive before the blockade of Paris. Notwithstanding, thanks to its resources, it was able to reimburse depositors for rather large sums. In a single week it repaid 40,000,000 francs. In addition to this the Comptoir served as an intermediary between the merchants, certain bankers of Paris, and the Bank of France.

In presence of the terrible situation of the capital just before the siege, the Comptoir had taken certain precautions, and likewise the Bank of France. The Comptoir sent its provincial "portfolio" and some of its officials to the Nantes agency. It transported to the London agency its foreign "portfolio" and organized there a special service to keep up the relations it had established with the credit houses of all foreign countries, and to maintain communication with the agencies across the Atlantic. As for the Nantes agency, it became really a provisional center for France and the other French branch offices.

During the insurrection in Paris, known as the Commune, the Comptoir, after taking the precaution of sending the greater part of its assets to Versailles, continued in operation. The postal service being no longer carried on by the regular public authorities, the Comptoir found a way to send and receive mail by way of Versailles. So the doors of the Comptoir remained open in Paris even during the rioting.

In October, 1871, it joined with several other credit companies in making an issue—authorized by the Government—of 5-franc notes. These notes were of great service to commerce, accepted as they were with great

Evolution of Credit and Banks

favor. Their circulation extended to the whole of France. This concern of course had an important share in the municipal loan of Paris in 1871; it received subscriptions on that occasion which amounted to the total of the loan. Finally it collected for the national loan of 3,000,000,000 francs, which we have mentioned, bids of 15,000 subscribers that represented 60,000,000 francs interest, or 1,200,000,000 francs capital—more than one-third of the loan. Like the great French banks, it helped the Government to effect the transportation or exchange of these funds, which were applied to the payment of the German war indemnity.

However, the Comptoir did not come through the terrible ordeal of the war without suffering its effects. At the time Paris was invested, it had been obliged to make large reimbursements, paying out 40,000,000 francs or more in a single week. Now, before the war it had 63,000,000 francs of deposits. It was a long time getting back to this figure. In 1875 the deposits were still not more than 54,000,000 francs.

It is true that the Comptoir had been entirely reorganized in that interval. Then had come the fall in the price of silver, which had already been foreseen, but which actually happened very suddenly in 1875 and 1876. As the Comptoir had agencies in the Far East, it hastened to decrease transactions in that part of the world. On the other hand, the Comptoir commenced at that time to take part in operations known as "high finance." It transacted successfully all the business connected with the unification of the Egyptian debt. In 1876

National Monetary Commission

Egypt was not able to meet its engagements. French and English capital was in great jeopardy there, and it was necessary to bring pressure on the Egyptian Government in order to straighten out its affairs and safeguard the interests of the holders of the debt. After an agreement with the viceroy of Egypt, the Comptoir was given charge in London and Paris of operations connected with the settlement of the above debt. In this way it operated conversions involving 3,800,000 certificates.

Nevertheless, the Comptoir continued to be a commercial bank of deposit and discount. Deposits came in slowly after the war, but showed a rapid increase after 1876, when they rose to 72,000,000 francs. Two years later this total exceeded 100,000,000 francs. Discounts had increased from 1,200,000,000 francs in 1874 to 1,600,000,000 francs in 1878, the year of the World's Fair in Paris, which was very successful.

About this time, this establishment, which saw its business falling off in the Far East, because of the fluctuations in the price of silver, began to restrict its operations in that part of the world. It founded agencies in Sydney and Melbourne, Australia, which gave accommodation to the woolen trade, for French industry obtains from that country a large supply of raw material for its woolen manufactures. An agency was opened also in San Francisco, because of its commerce with the Far East, and, also, because this port was the starting point for a considerable export trade in wheat with France.

Meanwhile the Comptoir was considering two important undertakings which were later carried out through its

Evolution of Credit and Banks

financial assistance: First, constructing the sea canal of Corinth; second, building the Servian railroad. The aim of the latter enterprise was to join the railroads of Turkey with the European systems, and so open communication between Paris and Saloniki.

Beginning with 1881, the competition of the other credit companies was felt by the Comptoir. These companies (the *Crédit Lyonnais* and especially the *Société Générale*) were to increase and develop their commercial banking operations more and more. So the discounts of the Comptoir, which amounted to 1,900,000,000 francs in 1881, began to decrease and fell in 1885 to 1,580,000,000 francs. However, three of its most important agencies, under able and wise management, at Marseilles, Nantes, and Lyons, were successful on a large scale.

The charter of the Comptoir Company, which established official relations between that company and the Government, expired in 1887. After making inquiries, and on the request of the Comptoir, the Government decided to extend the charter of the company for twenty years from March 18, 1887. In any case, these relations with the State seemed rather useless, because the common law of 1867 on joint stock companies would have been quite sufficient for this concern. The government trademark did not protect it from disastrous errors, which were destined to bring it to a tragic end a few years later.

The Comptoir, still acting as official banker, effected the conversion of the old Tunis debt in 1884. Two years later it concluded a loan of 15,000,000 francs with the Madagascar government, organized the customs service to

National Monetary Commission

insure its payment, and founded agencies at Tamatave and Tananarivo.

The year 1887 was a difficult one. Two events made business slack. Frontier incidents, wantonly exaggerated, provoked a tension between France and Germany. In another direction, a political crisis, raging among the high officials of the Government, made it necessary for President Grévy to resign, after a scandalous law suit and violent polemics.

The Comptoir, like all the other credit concerns, suffered from this state of things. The great confidence that it inspired had attracted to its coffers, both as deposits and as running credit accounts, 200,000,000 francs (total for December 31, 1887). It was difficult to find a way of using this capital profitably, a fact which was responsible for a gigantic error, destined to be fatal to the Comptoir.

Among its clients at this time was the Metal Company. The Comptoir consented to make loans to this company on the merchandise it bought. There was nothing abnormal in this, provided these loans were made for a limited sum and after prudent calculation of the risks of depreciation. However, these first transactions whetted the appetite of the Metal Company. The purchases it effected with the aid of the Comptoir made the price of copper rise. This first speculative success led the Metal Company to attempt to form a regular trust for the purpose of cornering copper. It negotiated with the principal companies which engaged in copper mining, with a view to raising the price by limiting production. To anyone who knew the copper-mining business from the point of view of the

Evolution of Credit and Banks

producer this combination was absurd. Both the directors of the Metal Company and those of the Comptoir, though it had been claimed that they were informed of the facts about the copper market, must have been blinded by the chimerical hope of absorbing the copper product of the whole world.

The president of the Comptoir, M. Denfert-Rochereau, at first made loans to the Metal Company without consulting his administrative board. Later, after considerable capital had become involved, M. Denfert-Rochereau disclosed the state of affairs to the administrative council. It was alleged that at this moment it was difficult to cease supporting the speculation of the Metal Company. The fact seems hardly admissible. The very absurdity of the scheme should have produced a rupture, even though a painful liquidation must have been the consequence.

The final scene in the drama was at hand. As might easily have been foreseen in 1888, the copper mines, profiting by the wild contracts made with them by the Metal Company, increased their output enormously. On the other hand, the price of copper being forced up very high, artificially, consumers in every country refused to buy. To keep on buying and paying and never selling, to be crushed under the piling up of a product that brings in nothing, is a situation that can not last long. A sad and unexpected incident gave the signal for the disaster. M. Denfert-Rochereau committed suicide on March 5, 1889. His death did not alter the catastrophe in any degree, nor, any more than others of the same kind, could it serve as an example.

National Monetary Commission

It precipitated a panic which led to an irresistible run on the Comptoir by depositors and holders of running credit accounts. In two days they drew out 70,000,000 francs.

We were on the eve of opening the exposition of 1889, called the Centenary of the French Revolution. A disorganization of the Paris market at that time would have been fatal to this international festival of commerce and industry. At that juncture the Bank of France came forward and loaned the Comptoir 140,000,000 francs on its commercial paper or securities. The Bank was not obliged to take this amount from the reserve, as the loan was made almost entirely in bank notes. The circulation, which on March 7, 1889, was 2,741,000,000 francs, rose by degrees to 2,888,000,000 francs on April 4. The discount rate was not and could not be changed. The Bank had then, by the law of June 30, 1884, the right to issue notes up to 3,500,000,000 francs; so there was still a margin of 760,000,000 francs before reaching the extreme limit of the privilege. Besides, every time the need has been felt, the maximum figure of the issue has been increased without question by Parliament, so that this maximum may always be considered as provisional. It would even be simpler not to fix the maximum issue at all.

The Bank of France, then, helped by these operations the liquidation of the Comptoir. It should be noted that the latter was not exclusively a speculative bank. It was, indeed, as the result of a very unusual combination of circumstances that it made the mistake of supporting

Evolution of Credit and Banks

the speculations of the Metal Company. It was much more a bank of commerce, holding a good line of commercial paper; its main business, in short, was making discounts. To be sure, the total of discounts had decreased latterly. After being 1,900,000,000 francs in 1881, it had fallen to 1,385,000,000 francs in 1887, and had weakened still more in 1888 and 1889 as a result of the competition with the other credit societies, which were extending their commercial banking operations. The Bank of France had, therefore, in the line of commercial paper of the Comptoir, guaranties which induced it to make a transaction that was not without risk, of course, but permitted this establishment to use its right of issue.

The liquidation of the Comptoir was made by friendly agreement and was ably managed. The assets were sufficient to settle in full all liabilities, including the loan made by the Bank of France. After balancing accounts, even the capital stock was found to be nearly intact.

These facts, which were anticipated from the beginning of the liquidation, were such as to make it seem desirable to found a credit establishment which could resume the name and the traditions (such as were good) of the old Comptoir. A group, of financiers, at the head of which was M. Denormandie, a former governor of the Bank of France, who was much esteemed in the business world, undertook to reorganize the Comptoir.

M. Denormandie, then, made terms with the liquidators of the old company to obtain the cession of the title and the clientèle of the former Comptoir, as well as its buildings and furniture.

National Monetary Commission

It is not our purpose here to dwell on the details of this reconstruction, except to say that the new capital stock was fixed at 40,000,000 francs. The issue of 80,000 shares at 500 francs took place May 15, 1889, and these shares were bought by the shareholders of the former Comptoir, who were given the preference. Additional bids were made by other people who wished to subscribe; these bids made a total of 85,000 shares, and had to be refused.

It was with 20,000,000 francs, the quarter of the capital paid in, that the new Comptoir began operations in June, 1889.

The offices of the old Comptoir had not been closed during liquidation, so that business went right on, as far as the public was concerned.

CHAPTER III.—*The panic of 1890-91—Intervention of the Bank of France in behalf of the Bank of England—The Société des Dépôts et Comptes Courants—The local crisis caused by it.*

Two other examples of panics.—These examples may have had an influence on the evolution of credit companies.—The Baring failure.—The Bank of England is asked for assistance.—The reduction of the reserve and especially the lack of freedom of issue hinder the Bank of England from playing its proper part.

The question of the extension of the credit companies, which is the heart of this whole discussion, we shall leave to the next chapter. Meanwhile, we must state briefly, according to the plan we have adopted, the following facts, which it is necessary to know in order to understand the rôle of the Bank of France, in so far as it comes to the rescue of credit during panics. And perhaps it will not be without value to show that the same causes produce the same effects, and that commercial banks always come to grief when the rules of good management are disregarded. Just as the old Comptoir d'Escompte had committed itself to the grave error of violating its statutes, and at the same time the principles of good administration, so the *Société des Dépôts et Comptes Courants* chose to indulge in operations that no commercial bank has a right to touch. It went under. Although in the financial world examples of disasters, coupled with the most tragic incidents, are not always heeded, it must be admitted that the two successive failures of the Comptoir in 1889 and the *Dépôts et Comptes Courants* in 1891 were some-

National Monetary Commission

what enlightening to the clients of this sort of establishments, for a time at least. On the part of administrators of banks or credit companies there is a growing opinion that the regular operations of commercial banking are sufficiently profitable, and they are tending to lessen risks, even in the underwriting and marketing of securities, where the companies are often nothing more than intermediaries selling on commission merchandise which it is not well to accumulate in the warehouse.

I.

The crisis of 1890 was confined for the most part to the London market, and was caused by the Baring failure. This famous old concern, engaging in large operations in loans, speculation, industrial financing, had opened far too extensive credits at a time when it was involved in big speculations. Being on the verge of suspending payments, it applied to the Bank of England, just as the former Comptoir d'Escompte in France had applied to the Bank of France. A syndicate of English bankers went security for the request of Baring Brothers. But the Bank of England has a constitution which does not allow it the necessary elasticity of issue, in case of need. In order to undertake the discounts of Baring Brothers or the Syndicate, it was obliged to diminish its reserve, which decreased its issue by just so much. It raised the discount rate to 6 per cent, but though that was enough to protect the metallic reserve, it did not enable the Bank to procure the necessary specie to come to the aid of the London market. In order to guard

Evolution of Credit and Banks

itself against the rebound of the London crisis, the Imperial Bank of Germany had already raised the rate of discount to $5\frac{1}{2}$ per cent.

It was then that the Bank of England borrowed of the Bank of France 75,000,000 francs in gold, with which to relieve the stress of the English market. The Bank of France was not affected at all by this exportation of coin. The average reserve, in fact, in the year 1890 was 2,513,000,000 francs, composed almost equally of gold and silver. In London, the reserve of the Bank of England had fallen at the height of the crisis to a little less than 500,000,000 francs.

The comparative merits of the systems of the Bank of England and the Bank of France have been a subject of much discussion, and the principal element of this discussion has been the state of the reserve of the two establishments. This is a secondary side of the question, in the face of a local crisis such as that produced by the Baring failure. The real defect of the English system is in the limiting of issue. It has been seen that the Bank of France was able in 1889 to come to the aid of the Comptoir d'Escompte without drawing on its specie, thanks to its margin of issue. Since the crisis was local, the remedy was there, close at hand. If the Bank of England had been able to issue notes for 75,000,000 francs, in order to meet the difficulties of the crisis, there would not have been the slightest need of an appeal to the credit of the Bank of France. For, since the Bank of France was willing to give credit to this establishment, the people of England would have done so equally by accepting its notes.

II.

The second crisis which we must mention was confined to Paris. It was caused by the failure of the Société des Dépôts et Comptes Courants. Because of consenting to run risks of a kind that no bank of deposit has a right to incur, this company was forced into inevitable bankruptcy. It lost a lawsuit, a fact which attracted the attention of its depositors, and soon aroused their suspicion. It experienced a panic, just as the Comptoir had done, though a less serious one. This happened in the beginning of March, 1891, almost exactly two years after the run on the Comptoir d'Escompte. In four days the deposits withdrawn amounted to more than 19,000,000 francs.

A syndicate of bankers was formed to go security to the amount of 15,000,000 francs for the Dépôts et Comptes Courants. The Bank of France came to the rescue again, just as it had done two years before in the case of the Comptoir, and advanced 60,000,000 francs for the reimbursement of the depositors and creditors of the company. It received as security the "portfolio" of this company, and other assets. We will not inquire here if the Bank was entirely disinterested in this advance, arranged for at 3 per cent, but what is perfectly certain is that on this occasion the total of its discounts was increased. It rose that year to more than 10,000,000,000 francs, a figure that it had not reached since 1884. At one moment, even, in 1891, the discounts amounted to 1,361,000,000 francs. As for the reserve, it averaged more than 2,553,000,000 francs, of which 1,279,000,000

were in gold. The following year the gold reserve went beyond 1,547,000,000 francs. In this same year, 1891, the discount rate was maintained at 3 per cent.

The sums needed for the liquidation of the Société des Dépôts et Comptes Courants were not so large as in the crisis of the Metal Company and the Comptoir in 1889. In that year the blow to credit had been much more serious and far-reaching. However, it was by the same procedure and with the same results that the Bank of France intervened. In spite of their success, these interventions have been criticised. Taking a general point of view, it has been asked if the help supplied so quickly by the Bank of France to insolvent credit companies was not of a nature to diminish the prudence of the administrators of these companies, and to give the public the assurance that a tutelary establishment would always come forward to protect the funds deposited in these establishments.

The question is not unimportant. It seems to us that the rule to be followed in such cases is perfectly simple. The Bank should intervene only when its advances are substantially secured. It acts then like a private individual who aids without risk a neighbor in distress. And, as it has the privilege of issue, it may do it for a comparatively moderate price. The side of the problem most difficult to solve is to make the general public understand the conditions of this intervention. The public is in need of being better informed of banking processes. Now, many prominent tradesmen and manufacturers are entirely ignorant of the rôle and mechanism

National Monetary Commission

of the various kinds of banks. It is a deep-rooted conviction with us that if this information were more widespread, it would form a tradition in the commercial and economic world which would exercise a salutary influence on the banks; for this education would teach people not to demand miracles, and at the same time would make them watchful of the mistakes banks may be guilty of.

CHAPTER IV.—*The credit companies and their development—Extension of their operations—Their general method—Their present situation.*

The bank note.—Circulation in France and England.—The bank check.—Conditions of its use.—Transfers of accounts.—Founding of the Société du Crédit Industriel et Commercial.—Founding of the Société Générale pour Favoriser le Développement du Commerce et de l'Industrie en France.—Founding of the Crédit Lyonnais Company (1863); of the Société Lyonnaise de Dépôts and the Société Marseillaise (1865).—Definition of check by French law, June 14–20, 1865.—Transformation in bank methods.—The banker of the large credit companies no longer waits for his customer behind his window—he goes to him.—The credit companies found branches in the principal cities of France.—The Bank of France increases the number of its branch offices.—Parallel development of branch offices of the Bank of France and agencies of the credit companies.—The Bank of France is the center of the system of the organization of the great credit companies in France and of the banks in general.—The foreign agencies of the great credit companies.—Financial activity of France abroad.—Analogy between the organization of the credit companies and the centralization of the French Government.—Advantages of centralization.—Ways of escaping the disadvantages of centralization.—Service for the publication of financial reports.—Sight deposits and running credit accounts grow sixfold in twenty-four years.—The time deposits show little or no increase.—Why sight deposits are preferable here to time deposits.—Causes of the increase of sight deposits.—Remarks on the preceding table.—The availability of discounts. The rôle of the Bank of France.

We have already seen the use of bank notes become general in France in proportion as the need made itself felt. Little by little, the total issue of the Bank of France increased. Every time the necessity arose the authorities extended the limit of issue. Here is a table recording the successive stages of the increase of circulation of the Bank of France, and the dates of the laws authorizing an increasingly large total of issue, especially after 1860.

	Francs.
1807.....	84, 600, 000
1810.....	101, 200, 000
1820.....	153, 800, 000
1830.....	223, 600, 000
1840.....	^a 223, 400, 000
1850.....	485, 600, 000

^a Law of March 15, 1848, carrying the limit of issue to 350,000,000 francs. Law of December 22, 1849, carrying it to 525,000,000 francs. Law of August 6, 1850, annulling the limitation of the law of December, 1849.

National Monetary Commission

	Francs.
1860.....	^a 749,600,000
1870.....	1,544,300,000
1880.....	2,305,400,000
1890.....	^b 3,060,400,000
1900.....	4,034,100,000
1907.....	^c 4,800,400,000
1908 ^d	4,853,400,000

In 1908 the circulation reached a maximum of 5,116,000,000 francs. It is probable that the circulation will be extended still more; nevertheless, the Bank has at present a sufficient margin.

If the circulation of the Bank of France is compared with that of the Bank of England, it is very evident that that of the Bank of England is much smaller. It ranges without much variation between 700,000,000 and 800,000,000 francs—about one-seventh as large as that of the Bank of France; and yet, England does an enormous business. It is the most important place of exchange in the whole world, a center of large financial operations. It possesses, then, a substitute for the bank note, a tool which takes its place; this substitute is the check, a kind of bank money which plays an important part in England, and is a simple instrument for balancing payments, ending in the clearing house. Here debts and credits are balanced to the amount of hundreds of billions of francs. The check has been used in England for a long

^a Laws of August 12 and 14, 1870, of December 29, 1871, of July 15, 1870, carrying limit of issue successively to 1,800,000,000, 2,400,000,000, 2,800,000,000, 3,200,000,000 francs.

^b Law of June 30, 1884, limit of issue 3,500,000,000. Law of January 28, 1893, limit of issue 4,000,000,000 francs. Law of November 17, 1897, limit of issue, 5,000,000,000 francs.

^c Law of February 9, 1906, limit of issue 5,800,000,000 francs.

^d The maximum circulation in 1908 was 5,116,000,000 francs.

Evolution of Credit and Banks

time. It presupposes a whole series of banks of deposits in which a great number of capitalists, merchants, manufacturers, officials, etc., have deposits and accounts. Furnished with check books, they draw on their bank, and pay their creditors, tradesmen, etc., in this way. The check saves coin; it is the complement of the mechanism of the joint stock banks; it explains how England carries on such a large business with a very limited metallic stock. It is certainly a rational economic organization. If the Bank of England had a less archaic and more flexible machinery of issue, the system would be perfect, and crises in the English market would be less acute.

The Bank of France of course opened running accounts with its clients at an early date; it gave them a chance to make transfers from one account to another (pink order), or to pay a third person from the account of the drawer (white order). But it was not everyone who was allowed formerly to open a running account at the Bank, and the accounts were not yet sufficiently numerous toward the end of the last century to permit making clearances on a large scale. Moreover, one bank alone, or nearly alone, practicing this kind of operations, scarcely gives wide scope to the mechanism, which must be adopted by a whole market in order to be completely effective.

The check has its bases, as we have seen, in a group of banks of deposit organized after the plan of joint-stock banks.

The example of England, as well as the forward movement of events, often more or less unconscious, led cer-

National Monetary Commission

tain financiers in France to undertake the creation of deposit concerns. In 1859 a company called the *Crédit Industriel et Commercial* was founded to perform this function. The aim was clearly stated to the public as extending deposit accounts with the use of checks and using these deposits for safe short-date investments, in such a way as always to have available funds to meet the withdrawals of clients. The president of this new credit establishment declared in so many words, moreover, that the institution proposed to imitate the joint-stock banks. To gather together scattered capital, which is most often unproductive in the hands of its possessors, to pay interest on it, and make it fruitful by using it in safe short-date loans—such was the method adopted. Let us remark here that the check had not yet been legally naturalized in France. The law which sanctions it, in fact, dates from June 14-20, 1865.

Several years later another company was founded in Paris, called the *Société Générale pour Favoriser le Développement du Commerce et de l'Industrie en France*. By its title one may see at once the tendency of this company. It was a sort of off-shoot of the plan originated by the *Crédit Mobilier* of the Pereires. This concern for the "advancement of commerce and industry" proposed to make industrial loans and investments and to speculate. But besides these special functions it intended to engage in all the operations of joint-stock banks, receiving deposits, opening running accounts, etc. Mixing together operations of "*crédit mobilier*" with commercial banking was to unite risks of a very different nature and to court many

Evolution of Credit and Banks

dangers. For how could the department which advanced funds for silent partnerships in industrial enterprises (an operation involving large risks) be kept separate from the department of discount and running accounts, with its deposits payable on demand? No air-tight compartment could keep them separated. This kind of bank is a mixed type.

Other establishments were founded at this time in imitation of the *Crédit Industriel et Commercial*: the *Crédit Lyonnais* in 1863 at Lyons; and two years later (1865), in the same town, the *Société Lyonnaise de Dépôts, de Comptes Courants et de Crédit Industriel*; at Marseilles, the same year, the *Société Marseillaise de Crédit Industriel et Commercial et de Dépôts*. All these had for an object, if not a sole object, at least a very definite one, to encourage in these very important centers the use of running accounts and check books. It was then between 1859 and 1865 that were founded the credit concerns which were later to expand and become powerful, along with the *Comptoir d'Escompte* created several years sooner, under circumstances that have already been described. But this latter establishment had been organized after the old plan of discount banks; it was not until afterwards that it followed the lead of the new concerns and began to try to spread the use of checks and running accounts.

As may be easily seen, all these companies were founded either at a time when the existence and legal definition of the check had not been settled, or very shortly after. The law of June 14-20, 1865, defined a check as "a writing which, in the form of an order for payment, allows the

National Monetary Commission

drawer to effect the withdrawal in favor of himself or of a third person of the whole or a part of the disposable funds which remain to his credit with the drawee." "It is signed by the drawer, and bears the date of the day when it is drawn. It can not be drawn except for sight payment. It may be made out payable to bearer or to a specified person, and can be signed 'payable to the order of' and even transferred, by means of indorsement in blank."

The check is preeminently the instrument of credit companies. It is well known that under the name of "crossed check" it plays an important part in England. However, in order that the check, which is only a tool, a practical means of payment, may be of service, there must be many deposits and accounts in banks which are engaging in these operations.

With the exception of the Comptoir d'Escompte, these banks did not develop greatly before the war. Several of these banks, even after the war, at the time of the loan for the payment of the 5,000,000,000 francs indemnity to Germany, also for the restoration of our military equipment, and later at the time of the loans for great public works—several of them, we repeat, engaged in the sort of operations known as "high finance" without the epithet "high" being justified by the superiority of the operation.

Until 1881, especially, they made large issues; We give the figures in the following table:

	Francs.
1876.....	45,400,000
1877.....	286,600,000
1878.....	35,100,000
1879.....	2,168,800,000
1880.....	880,400,000
1881.....	631,000,000

Evolution of Credit and Banks

It is true they continued later to carry on operations in disposing of loans, but from this moment forth they began to widen their scope. Their mode of work was to be modified little by little. They realized the advantage of going to the public to solicit custom, to induce it to open running accounts, and consequently to make deposits. Afterwards they organized on a vast scale special services, such as safety deposit, supervision of drawings, cashing of coupons, loans on securities, etc.

And it was not only by printed circulars that the credit societies informed the public of the advantages they offered; they instructed employees in the business of soliciting patronage and, making overtures (*démarches*); hence the name of *démarcheurs* was given to these employees.

Struck by the very obvious fact that France is everywhere a land of economy, some of these societies, such as the Société Générale, the Crédit Lyonnais, and the Comptoir d'Escompte, founded agencies or branch offices in Paris and the provinces. Gradually the number of these agencies has increased and covered France with a close network. In this way, they gather capital everywhere; everywhere they try to compete in certain transactions with the local banks, which produces something of a crisis, and brings about a slow transformation of some of the local banks and the disappearance of others.

Side by side with the credit companies, the Bank of France increased the number of its branch offices and created auxiliary bureaus, increased very much the num-

National Monetary Commission

ber of affiliated towns, and so rendered the greater part of commercial effects bankable—that is to say, capable of being discounted by the Bank, which collects them at a greater number of places.

It should be remarked that the parallel development of branch offices and agencies of the Bank of France, and of the agencies of the credit companies, greatly aided the development of the latter. They have now near their agencies a branch office or bureau of the Bank where they can rediscount rapidly their commercial "portfolio" and realize on negotiable securities in case of urgent need.

It is here that is seen the intimate connection that exists in France in the organization of credit, such as historical evolution has made it, between the Bank of France and the credit companies. The first is powerful because of its privilege of issue and its considerable metallic reserve, which is due to two causes. First, the continuation of favorable exchanges, resulting from our considerable investments of capital abroad; second, the great credit of the bank note. With these two advantages the Bank of France becomes the pivot of the system; it permits the credit companies to keep a very small metallic reserve; to use constantly in making discounts the capital which is confided to them. The commercial "portfolio," as we shall see, ranks next to the metallic reserve among available resources, because it is easily rediscountable at the Bank of France. It is obvious, then, that the parallel development of the credit companies and the branch offices and bureaus of the Bank of France is an interesting study.

Evolution of Credit and Banks

Here are tables which sum up this development:

BANK OF FRANCE.

Year.	Number of branch offices.	Number of auxiliary bureaus.		Affiliated towns.	Total.
		Provinces.	Suburbs.		
1890.....	94	38		120	252
1897.....	94	38		128	260
1902.....	126	49		218	393
1907.....	127	47	8	284	466

CRÉDIT LYONNAIS.

Year.	Number of agencies.			Total.
	Paris.	France.	Foreign.	
1880.....	33	28	9	70
1900.....	33	135	17	184
1907.....	53	173	20	246
1908.....	55	173	18	246

COMPTOIR D'ESCOMPTE.

1880.....		3	6	9
1900.....	26	86	17	129
1907.....	^a 46	132	23	201
1908.....	49	140	23	212

SOCIÉTÉ GÉNÉRALE.

1900.....	57	250	1	308
1907.....	88	^b 350	2	440
1908.....	97	^c 150 ^a 400	2	499

^a Including branches in suburbs.

^b Permanent.

^c Temporary.

National Monetary Commission

The *Crédit Industriel et Commercial* has no provincial agency; it possesses 34 in Paris and 1 in London.

We may, then, sum up for the four great companies we have just been discussing the extent of their means of work, in contact with the public, by the number of their agencies. (We do not count the occasional agencies of the *Société Générale*.)

Agencies in France in 1907:

Paris and suburbs.....	235
Provinces.....	713
<i>Total for France</i>	948

These 950 agencies, in round numbers, are like so many branches springing from a central stem; but each of them has a kind of separate existence, a special character, which permits it usually to adapt itself to the environment where it happens to be.

In 1908, the total number of the foreign agencies of the credit companies (some of which are very large) was 43.

All four of the companies which we are considering have London agencies; the *Comptoir d'Escompte* has opened branch offices, too, in Liverpool and Manchester. This company and the *Crédit Lyonnais* have established foreign agencies in nearly every important commercial center in the world. In Europe, the *Crédit Lyonnais* has European agencies at Brussels, St. Petersburg, Moscow, Odessa, Constantinople, Geneva, Barcelona, Madrid, Valencia, Seville, and the *Comptoir d'Escompte* at Brussels, Monte Carlo, and St. Sebastian.

Evolution of Credit and Banks

Outside of Europe the *Crédit Lyonnais* has established agencies in Egypt at Alexandria, Cairo, Port Said; also in Smyrna, and Jerusalem and Jaffa in Palestine.

The *Comptoir d'Escompte* likewise has agencies in Alexandria and Cairo, but it has founded others in India (it maintained the one at Bombay), and finally, in Sydney and Melbourne, Australia.

Moreover, this establishment, faithful to its traditions, has opened a certain number of agencies in our colonies and protectorates. In Madagascar and our Indian Ocean possessions it has seven agencies, including those at Tananarivo, Tamatave, Diégo-Suarez, etc. In Tunis it has four agencies—at Tunis, Bizerte, Sfax, and Sousse.

So the financial activity of France thus makes itself felt in the most important centers of the world excepting those of the United States of America. In 1892 the *Comptoir d'Escompte* founded an agency in San Francisco and a provisional one in Chicago; then in 1895 one in New Orleans. But it closed the Chicago agency in 1900 and a few years later those of San Francisco and New Orleans.

This is one of the advantages of the agency system; it makes it possible to suppress very quickly the useless branch which seemed to be called for, but which has not been as successful as its founders hoped. The system of affiliated banks is much less elastic. These have a sort of independent existence—a personality—in which the large establishments that helped to found them participate. Their closing certainly involves more trouble, and the moral effect is much greater, than when an agency is abolished. We are alluding to the system of the great

National Monetary Commission

German credit companies. This system has a historical background which it is not our purpose to dwell upon here, and corresponds to conditions different from those of France.

In France, the organization of the credit companies, so far as concerns their expansion, is modeled, one might say, on the political organization, which is above all centralized. It is in the central seat of the credit companies that the final authority rests. From there issue suggestions and sometimes orders. It is by the central offices that the agencies are supervised and audited. Treasury questions, the placing of loans, the general movement of business, everything is an object of study there. The system of accounting centralizes all operations and makes it possible for the head men to take in at a glance the general business situation. These are the advantages of the system; one might fear its drawbacks, dread administrative red tape, the tendency to reduce everything to rules, delay in acting, the restriction of the initiative of managers of agencies. Now, the companies have escaped almost entirely these disadvantages; the heads of agencies act with a certain liberty; their vigilance is stimulated, as well as their activity, by the method of remuneration which makes their earnings depend largely on their skill and prudence. Those who are placed at the head of foreign agencies, sometimes far from the central office of the company, even though they have general instructions which they must follow, are chosen from the most energetic, superior, and experienced employees, because they are often obliged to make quick decisions.

Evolution of Credit and Banks

The *Crédit Lyonnais* and the *Comptoir d'Escompte* have each organized a service for publishing financial reports in which one can constantly follow the economic facts that bear upon business: state credit and loans, and their budgets; all kinds of industrial companies, metallurgical, coal-mining, mechanical construction, spinning, and weaving companies; trade in foodstuffs and agriculture. Numerous documents and detailed studies permit the heads of these establishments to gain a rapid knowledge of the main lines of the finances of a country, the situation of industrial, commercial, or transportation companies, and of the other banks. Engineers or employees who have technical or expert knowledge are sent out besides to examine on the spot questions that need clearing up.

What is more, other services are devoted to studying the risks either in what concerns discounting commercial paper, or in ascertaining the value of transferable securities.

However, it would be difficult to understand the workings of these great credit concerns without knowing in outline both the automatic control that results from a very clear system of accounting and the factors which enable the responsible men of the management to make rapid and timely decisions. Granting that a mere glance is enough for a banker operating on a given market, imagine what a knowledge of details and comprehensive view of the whole situation is needed by the head of one of these great houses, whose experience, like the horizon that he sweeps, must be as broad as the whole world.

National Monetary Commission

THE EXTENSION OF OPERATIONS IN THE GREAT CREDIT COMPANIES.

The credit companies, as we have said, commenced to extend their line of discounts and to receive deposits of increasing importance, beginning with 1885.

To show this progressive increase in deposits and discounting operations, loans and "carry-overs" (contangos), we can not do better than call attention to the table that is given below. As may be seen, it includes the four great companies that we are considering: The Crédit Lyonnais, the Comptoir d'Escompte, the Société Générale, the Crédit Industriel et Commercial. Beside these appear the figures for the Bank of France in what concerns deposits, discounts, and loans on securities.

From 1885 we have given the figures only for every five years, judging it unnecessary to draw up a complete table of every year, which would have been cumbersome and more difficult to understand. These statements all refer to the same period, which is a necessary condition in making clear the course of this development.

Evolution of Credit and Banks

Statement of December 31 for the credit companies and the last balance sheet of the year for the Bank of France. [Million francs]

Year.	Crédit Lyonnais		Comptoir d'Escompte.		Société Générale		Crédit Industriel et Commercial		Total sight deposits and running credit accounts.	Total time deposits	Total credit companies	Bank of France sight deposits and running credit accounts.
	Sight deposits and running credit accounts.	Time deposits	Sight deposits and running credit accounts.	Time deposits	Sight deposits and running credit accounts.	Time deposits	Sight deposits and running credit accounts.	Time deposits				
1885	320	40 0	105 0	---	158 0	90	77	---	660 0	130 0	790 0	370 5
1890	611	66 0	210 0	---	102 0	94	104	25 5	1,087 0	185 0	1,272 0	432 0
1895	748	95 0	285 0	---	301 0	99	87	11 3	1,421 0	205 0	1,626 0	605 5
1900	1,121	56 0	451 5	79	482 0	115	130	---	2,184 5	250 0	2,434 5	506 7
1905	1,562	34 5	841 0	63	731 5	126	181	---	2,215 0	223 5	2,438 5	623 5
1908	1,745	40 5	915 0	60	1,117 5	168	193	---	3,970 5	268 5	4,239 0	575 5

Year.	Crédit Lyonnais		Comptoir d'Escompte.		Société Générale		Crédit Industriel et Commercial		Total sight deposits and running credit accounts.	Total time deposits	Total discounts	Bank of France.	
	Discounts	Loans on securities, "carry-overs,"	Discounts	Loans on securities, "carry-overs,"	Discounts	Loans on securities, "carry-overs,"	Discounts	Loans on securities.					
1885	227 0	23 5	129 0	---	118 5	56 5	83 0	9 3	557 0	89	616 0	284 5	
1890	460 0	138 8	140 0	---	134 0	86 7	88 0	13 8	822 0	239	868 2	263 6	
1895	522 0	205 0	220 5	60 5	136 5	105 0	55 5	19 5	934 0	390	626 0	369 0	
1900	759 7	347 0	334 0	132 6	317 0	123 0	63 0	51 5	1,473 7	654	847 0	509 8	
1905	1,030 0	395 6	547 0	197 0	433 0	201 0	102 3	67 0	2,112 0	860	905 0	500 0	
1908	1,187 0	468 8	637 0	186 5	751 5	250 5	131 7	52 5	2,707 0	898	654 0	520 5	

National Monetary Commission

In glancing at the columns of total sight deposits and running credit accounts, one may see the ratio of the increase; it was very nearly regular. From 660,000,000 francs the sight deposits and running credit accounts rose to 3,970,500,000 francs in 1908; they grew sixfold in twenty-four years. The increase is due, therefore, to normal and deep-lying causes, since the upward course of the deposits followed an even progression.

Consulting next the column of time deposits, an increase is visible for the same period of time, but in proportion it is not nearly so great, since the total of these deposits was 130,000,000 francs in 1885 and is only 268,000,000 francs in 1908, so that this sort of deposit has merely doubled. And, again, this doubling is due chiefly to the Société Générale, whose time deposits were 90,000,000 francs in 1885 and 168,000,000 francs in 1908, an increase of 78,000,000 francs. On the other hand, the time deposits of the Crédit Lyonnais, after increasing until toward 1895, show a tendency afterwards to decrease; in 1908 the total of this kind of deposits was the same as in 1885, 40,000,000 francs, while the sight deposits and running credit accounts rose in one company from 320,000,000 francs in 1885 to 1,745,000,000 francs in 1908, or nearly half the sight deposits and running credit accounts of the four societies combined in 1908.

This tendency to prefer sight deposits to time deposits proves that these credit companies generally use the deposits for short-time operations such as discounts and "carry-overs" (contangos). Moreover, they have observed that having clients in every class of the population,

Evolution of Credit and Banks

and in every part of the country, large, medium or small manufacturers and tradesmen, people living on their income, officials, etc., the deposits and withdrawals balance each other in such a way as to maintain, not an even level, of course, but an average level, which, in making it possible to count on an average length of time for retaining deposits, gives the companies full security to engage in their various operations. Since the interest allowed on sight deposits is less than on time deposits (which latter is 1, 2, or 3 per cent according to the number of years), it has been possible to lower very appreciably the discount rate.

Whence comes this increase in sight deposits? From several different kinds of causes.

In the first place, the increasing number of agencies gather capital through the whole of France by offering accommodations to depositors and by soliciting tradesmen of every kind, large or small, to open running accounts. These various accommodations given to clients come mostly from the very genuine competition of the companies with one another. The small interest allowed on sight deposits, even though it has been as low at times as one-half per cent, is one of these advantages. This rate, moreover, is not uniform for all clients, and this is easy to understand in the case of those who have opened running accounts. Here the agreement made may change according to the state of the account, which depends in turn on the kind of transactions the tradesman or manufacturer engages in and the nature of the service he asks of the credit company.

National Monetary Commission

It is useless to insist on this point. Every bank in the world has solved it in the same way. The various people who have argued that a banker should sell his services at a fixed price are in the wrong as to discounts, loans, collections, etc. The client who brings large business, easy to transact, yielding quick profits, may be given terms such as would not be granted to another customer, whose more limited operations demand just as much writing, offer more risks, etc.

Let us consider next the last column to the right of the first part of our table; it relates to the Bank of France. We see that the totals do not give the impression of very great variation, and seem from 1895 on to remain stationary. In order to judge of these variations, let us take the figures representing the average total of the commercial discounts. We give every other year here in order not to make the table needlessly long.

Annual average of discounts of the Bank of France (Table B).

	Francs.
1885	784, 300, 000
1887	577, 900, 000
1889	713, 800, 000
1891	760, 700, 000
1893	579, 300, 000
1895	543, 600, 000
1897	730, 400, 000
1899	828, 300, 000
1901	592, 400, 000
1903	688, 000, 000
1905	640, 500, 000
1907	1, 125, 700, 000
1908	897, 000, 000

As may be seen, the tendency indicated by the last balance sheet of each year showed very clearly a stagnation in the whole. The only large figure is the 1,125,700,000

Evolution of Credit and Banks

francs for the year 1907. This is due to the crisis which had begun in 1906, and whose effects were still apparent in 1908 in the total of 897,000,000. This shows that even if the commercial "portfolio" of the Bank of France has risen slowly for thirty years, in comparison with that of the credit companies, it increases distinctly during crises. The bank is the place of refuge where the credit companies and other banks come to rediscount their commercial bills and turn them into ready resources.

In order to see this clearly, it will be enough to call to mind the average figures of the commercial discounts of the Bank of France during the serious crises that we have experienced in France since the war.

	Francs.
1871	1, 164, 000, 000
1872	2, 089, 400, 000
1873	2, 299, 400, 000
1874	1, 760, 600, 000
1875	1, 305, 200, 000
1876	906, 000, 000
1881	1, 166, 700, 000
1882	1, 151, 100, 000
1883	1, 027, 700, 000
1884	996, 700, 000

The crisis of 1891 is marked by a slight increase which is always shown in this way by the average total of discounts.

	Francs.
1890	669, 000, 000
1891	760, 700, 000
1892	550, 400, 000

Although there is something like a regular increase in the discounts of the Bank after 1897 (see Table B), there are nevertheless very marked fluctuations up or down.

National Monetary Commission

In reality the Bank of France follows a different plan from the credit companies and private banks in general in the matter of discounts. Its rate is uniform, for the most part, and is modified as little as possible. The Bank can do this, thanks to a sufficient margin of issue and an imposing reserve. But this state of affairs does not give it the flexibility of the other credit establishments, which are quite right in not maintaining a fixed discount rate. This is even a leading distinction between the companies and the large department stores, to which they are often compared.

Moreover, the credit companies, as we have said, solicit patronage. They offer interest on deposits, and if the client is an important house and furnishes good paper for large sums, they make special prices in his favor. Finally, we will call to mind once more that the network of their agencies, both in Paris and all of France and abroad, extends the boundaries of their activity.

What is more, they keep in stock, one might say, a full line of banking articles; they take foreign paper, deliver letters of credit for all countries, make collections on all markets, etc. Their agencies are so arranged as to give the quotations on the different bourses as fast as they are made. One may enter freely into these agencies, which are not so awe inspiring as the old banking houses.

Thanks to numerous deposits, coming from an economical country like France, they have also been able to make discounts at rather reduced rates. Here is a table which gives the average yearly rate of the discounts in France and the principal foreign countries.

Evolution of Credit and Banks

Average discount rates.

Year.	France.		England.	Germany	Austria	Belgium.
	Outside rate.	Bank of France.				
1892-----		2.70	2.52	2.20	4.02	2.70
1895-----	1.38	2.10	2.00	3.10	4.30	2.60
1898-----	2.06	2.20	3.26	4.28	4.16	3.04
1901-----	2.46	3.00	3.72	4.10	4.08	3.28
1904-----	2.02	3.00	3.29	4.22	3.50	3.00
1905-----	2.03	3.00	3.01	3.82	3.70	3.17
1906-----	2.58	3.00	4.27	5.15	4.33	3.84
1907-----	3.30	3.45	4.92	6.03	4.89	4.94
1908-----	2.14	3.05	3.00	4.75	4.25	3.50

THE METHODS WHICH THE GREAT CREDIT COMPANIES USUALLY FOLLOW—THEIR PRESENT SITUATION.

We have seen on what the credit companies of France base their operations. They derive their resources:

First, from third parties—depositors, holders of running credit accounts.

Second, from their own capital and reserve.

We have noticed that the sight deposits and running credit accounts had increased greatly with them, and that on December 3, 1908, they were nearly 4,000,000,000 francs for the four following societies: Crédit Lyonnais, Comptoir d'Escompte, Société Générale, Crédit Industriel et Commercial.

We have also called attention to the tendency of several of them not to increase their time deposits. If the total of sight deposits and running credit accounts rose from 660,000,000 francs in 1885 to 3,970,500,000 francs on December 31, 1908, it was because of the increase of these deposits at the Société Générale.

National Monetary Commission

To make clear how these societies employ their different resources, it is not necessary to write at length. The arrangement of the accompanying table will give a better idea of the workings of these societies than long explanations. Some explanations should be given perhaps as to the arrangement of the table itself. It is a balance sheet in fact, or at least a group of balance sheets of these four companies on December 31, 1908. The assets are made up after the usual fashion; the liabilities are divided into two parts—one of them is called “Resources coming from third parties,” and the other, the “Companies’ own resources.” For, although the companies owe their capital and reserve, in the last analysis, to their stockholders, this capital and reserve are primarily to protect clients, those third parties who have intrusted their funds to the companies. It was necessary to distinguish this part of the liabilities from the other, since, with regard to clients, it may be termed assets.

As may be seen, the total metallic reserve of these four companies is 401,500,000 francs. Compared with the sight deposits and running credit accounts, payable at any time, which amount together to 3,970,500,000 francs, this reserve is found to represent about 10 per cent of the debt of the companies payable at sight.

It will be noticed, too, that the collateral loans and “carry-overs,” which come to a total of a little over 898,000,000 francs, compared to the total of the companies’ own resources, which are 789,500,000 francs, shows only a relatively small difference—that is, $898,000,000 - 789,500,000 = 108,500,000$, or one-eighth. Now, in these 898,000,000 francs are included “carry-overs” for an impor-

Balance sheets for December 31, 1908, of the principal French credit companies.

[In thousand francs.]

Name of firm.	Assets.							Liabilities.								
	Reserve and cash on hand.	Discounts.	Loans on collaterals and "carry-overs."	Running debit accounts.	Government securities, shares, bonds.	Miscellaneous movable and immovable property.	Total.	Resources furnished by third parties.					Companies' own resources.			
								Sight deposits.	Running credit accounts.	Acceptances and sundries.	Bills of fixed maturities.	Total of liabilities with regard to third parties.	Firm.	Various reserves.	Profit and loss (net balance).	Total of companies' own resources.
Crédit Lyonnais.....	153,710	1,187,835	408,793	549,600	8,594	83,814	2,392,346	756,328	988,785	231,723	40,510	2,017,346	250,000	125,000	-----	375,000
Comptoir National d'Escompte.....	101,847	637,204	186,514	331,045	17,874	56,456	1,330,940	571,734	343,248	185,034	60,356	1,160,372	150,000	20,568	-----	170,568
Société Générale.....	119,615	751,618	250,564	324,677	113,546	32,091	1,592,111	389,606	728,070	107,979	168,066	1,393,721	150,000	37,772	10,618	198,390
Crédit Industriel et Commercial.....	26,389	131,776	52,437	34,395	10,696	4,942	260,635	94,310	98,913	21,851	-----	215,074	25,000	16,000	4,561	45,561
	401,561	2,708,433	898,308	1,239,717	150,710	177,303	5,576,032	1,811,978	2,159,016	546,587	268,932	4,786,513	575,000	199,340	15,179	789,519

1971-10. (To face page 214.)

Evolution of Credit and Banks

tant sum, at least one-third. These loans on securities, which are not so easily realized on as the commercial discounts, would then be amply covered by the private resources of the credit companies (the capital and reserve). The *Crédit Lyonnais* even, which has nearly 409,000,000 francs in collateral loans and "carry-overs" (contangos), can set off 375,000,000 francs against these less available funds. The same proportion exists for the *Comptoir d'Escompte*, and likewise the *Crédit Industriel et Commercial*. As for securities held by these companies, they do not amount in round numbers to more than 151,000,000 francs, in which the *Société Générale* figures for 113,500,000 francs. This proves that these companies are not banks for investments involving risks, and speculating on negotiable securities. The *Crédit Lyonnais*, holds securities only to the amount of 10,500,000 francs; the *Comptoir d'Escompte* for 17,800,000 francs; the *Crédit Industriel et Commercial* for 10,500,000 francs. These figures represent the total amount of securities on deposit of the concerns we have just mentioned. It is the natural course of the business of their clients in operations on negotiable securities.

The commercial discounts are next in availability to the metallic reserve, which, of course, is always available. If the latter is the standing army of capital for these companies, the commercial discounts are the auxiliary corps of the army which may be most quickly put in the field. These discounts for the four great companies amount to 2,708,000,000 francs, of which 1,187,000,000 francs are for the *Crédit Lyonnais* alone. Now, in France, thanks to the *Bank of France* and its margin of issue, in panic times

National Monetary Commission

these companies can rediscount at this establishment a part of their "portfolio." Although the English joint-stock banks take great precautions in their plan of procedure, they have not in the Bank of England the same resource, for it is just at the moment when it ought to increase its issue—that is to say, in panic times—that it is bound by the act of 1844. Every system of bank issue must, then, tend to give either to a single bank (if the monopoly is established) or to the banks of issue (if a number of banks have been decided on) the greatest possible elasticity of issue, in order to cope with crises. What, in fact, is needed at these difficult moments? More currency than in normal times. Who can supply it? A bank issuing bills against reliable securities, such as commercial effects. It is these effects that must be coined into money and made to circulate, until calmer days arrive.

It must be added that in France the "portfolios" of commercial bills of the credit companies are composed of good paper, giving very few losses. This is evidently also one of the necessary conditions if the Bank of France is to fulfil its rôle without risk and maintain its credit—the credit of the bank note.

It may be easily seen that the Bank of France is the center of the credit organization of France. It is its special constitution such as a historical evolution has made it which has in some sort determined the development of the credit companies and of banks in France. If to this is joined the peculiarly prudent and economical character of the French, their fondness for saving, it will be easy to understand the influence of surroundings on the workings and methods of the credit companies.

CHAPTER V.—*The credit companies and the local banks.*

The numerous agencies of the credit companies compete with the local banks.—The Paris banks are little affected.—It is hard to estimate the exact number of the local banks and the importance of their affairs.—First grouping.—Advantages the local banks claim to offer.—Unjust criticism.—The real crisis of the local banks.—Solutions of the problem.—A central bank is established in Paris.—Sale of securities.—District banks.—The present moment is a period of transition for the local banks.

The development of the credit companies, of their agencies and operations, was not accomplished without creating a sort of latent crisis among the local banks. It is a question here of the banks of provincial cities with which the credit companies came to compete on their own ground. The Paris banks, having been long established, were not particularly affected by the extension of the agencies of the credit companies in the capital. Some carry on transactions known as "high finance"—participation in state loans, issues of industrial securities, etc.; others are banks of commerce, having each its own patrons, answering needs and rendering services to which they are adapted. In the first group may be mentioned the Mallet Bank, which was founded in the first half of the eighteenth century, the Hottinguer Bank, etc. Among the second are the bank of Offron, Ginard & Co., founded in 1817; the one under the firm name of Henrotte & Muller, created in 1823; the Lehideux Bank, which goes back to 1835; the Claude, Lafontaine, and Fouchet banks, etc.

It is, then, the provincial banks which have really suffered from competition with the credit companies. These owed

National Monetary Commission

the depression they experienced to other concomitant causes also, and to the necessity of making changes in their mode of work. Improved means of communication, the extension of the railroad system, the telegraph and telephone, have contributed to make more effective, even in the most remote towns, the regulating and leveling action of the law of supply and demand in the matter of capital.

What is the number of these provincial banks? It is rather difficult to tell. The only way of approximating it is by the licence tax they pay. But here again one must make distinctions—the tax is greater or less according as they are bankers or discounters. The number of discounters is probably greater. It may be estimated at about 1,200; the number of private bankers is doubtless slightly less—perhaps 1,000 or 1,100. The counting houses and loan agencies may be estimated at something like a hundred. Finally, other establishments make a specialty of placing transferable securities. They seem to have increased in number, and may be roughly estimated at 400. There are, then, from 2,700 to 2,800 local banks of varying importance, ranging from the little discount bank of a small town to the large city banks with big capital.

A certain number of these banks have formed a syndicate or union to protect their interests. They find themselves in competition, in fact, in two operations, one of which has been much extended; the agencies of the credit companies make collections at a much lower price than that formerly charged by most of the local banks,

Evolution of Credit and Banks

especially the ones situated in third-class towns; thanks to the central office in Paris, the credit companies are better informed and better situated for all transactions on the Bourse. The result is that the operations involving the most risk fall to the local banks—that is to say, advancing funds for a silent partnership in industrial enterprises (*commandite*). As for discount, the rate charged by the agents of the credit companies has tended to make it lower.

For the rest, we are summing up the grievances of the local banks as expressed in the publications on the subject, and the reasons put forward in their favor by their representatives:

The local banker belongs to the neighborhood; his family, property, and interests are there. He cooperates in aiding local commercial or industrial undertakings.

He receives as time deposits the funds of the landowners, who are the local capitalists, and pays them good interest. This capital he can again use as a silent partner (*commandite*) in local enterprises, which the credit companies are not willing to do.

Knowing the local credit better than the manager of an agency, who is often a stranger in the place, the local banker can give personal credit.

In a local bank the management is permanent; the son generally succeeds the father, or, if not, the son-in-law or some other member of the family.

These local banks claim that they are able to save expense for clients in the business they do with them,

National Monetary Commission

because their profits consist of the difference between the interest they pay depositors or clients who are their creditors, and the interest they receive on discounts, loans, etc. (This argument does not quite agree with the facts, because in the case of many operations the credit companies have brought rates down.)

In the terms relating to accounts they claim to offer more stability than would be possible for the manager of an agency, who receives instructions from the central office of his company.

The credit companies centralize capital at Paris in order to use it for "carry-overs" (contangos), etc. In this way speculation in negotiable securities receives more encouragement than commerce and industry.

The local banks divide the risks; one of them may go under or suspend payments without affecting anything but the local market, while if a credit company should fail, it would involve as many markets as it has agencies.

Finally, certain aggressive writers have accused the credit companies of investing French capital in foreign securities. Now, we have seen that this exodus was made necessary by the large amount of unemployed capital; this use of French capital is besides of the greatest economic and financial aid to our country. The income on the thirty-odd billion francs that we hold in foreign investments establishes a balance of exchange very favorable to France. This makes it possible for the Bank of France to possess and maintain, even in crises, a large gold reserve—at this moment more than 3,500,000,000 francs—and, in short, it facilitates commercial relations,

Evolution of Credit and Banks

extends French influence, and sometimes paves the way for political understandings.

Nevertheless the crisis existed, and after criticisms and recriminations came investigations of ways to meet the difficulties. Naturally, too, by reason of the evolution of the organization of credit in France, certain solutions were suggested by the facts. We shall state them briefly.

In the beginning, a great number of local and provincial bankers came together and formed a union for the purpose of considering means of defense. The first aim was to bind together the various members of this union in common business relations and to establish in Paris a credit concern which was to centralize provincial operations on the capital at moderate rates, and was also to try to procure its share in the great issues of securities, in order to give its provincial correspondents the benefit of them and allot to each one his share of securities to dispose of.

This solution resulted in practice in the founding at Paris of the *Société Centrale du Syndicat des Banques de Province*, which now goes under the name of the *Société Centrale des Banques de Province*. It dates from 1905, and has a capital of 1,185,000 francs. Its provincial correspondents are the members of the syndicate of provincial banks, from 320 to 330 in number. Together with the branch offices of certain of these banks, they represent about 368 agencies open for issuing and marketing transferable securities. Among the operations in which it engages, this one seems to be the most important.

National Monetary Commission

It has a safety-deposit service and transacts other banking operations, but is apparently for the most part an investment bank. Will it persist in this course to the point of entering as a silent partner into industrial enterprises (*commandite*)? Will it be an organ for transforming or aiding the medium-sized or small local industries? It is difficult to give an opinion on this point, because the association dates only from 1905. This last function, relating to local industries, has been and still is one of the data of the problems raised by the local or provincial bankers.

A movement entirely different from this one has been started in certain parts of the country. Several very important local banks, which enjoy the confidence of the region where they operate, have extended their radius of activity and formed veritable district credit companies. They, too, have agencies and branch offices and solicit patronage. As the bankers or managers of these societies live in the locality and are deeply rooted in it, they are well acquainted with the geography of credit, the progress of industries, and the trend of local business. During the crisis which raged in the Lyons silk market in 1907-8 the Lyons bankers were of great assistance to the merchants, and saved many failures. Lyons, we should add, counts many experienced bankers of the first order.

But it is especially in the north that the widening out of local banks into district banks or agencies has taken place. Among these should be named the bank of Verley Decroix & Co., with headquarters at Lille, which possesses 27 branch offices in the Departments of Nord and Pas-de-

Evolution of Credit and Banks

Calais; the Devilder bank, which has 9 branches and is also located at Lille; the Varin-Bernier Bank at Bar-le-Duc, which has 10 agencies. In these regions of the north and east are grouped the metallurgic industries and factories. In the southwest, too, at Bordeaux, must be mentioned the Bank of Bordeaux, which has 7 agencies in the region (Angoulême, Bergerac, Blaye, Libourne, Royan, Ste. Foy la Grande, and Sarlat). Moreover, it has an agency in Paris, 3 district offices in Bordeaux, and 18 auxiliary offices in the surrounding region.

The local or provincial banks in France are, then, in a transition state. The most important of them will probably develop into district banks; other still smaller ones will gravitate around the Société centrale des Banques de Province; others still, licensed as discounters, will continue in a limited radius to discount paper for the small trade, and rediscount it at the Bank of France if it is "bankable."

Evolution of Credit and Banks

The rate of discount bears witness to the calm of this period, and the cheapness of capital. The following table shows this clearly:

Discount rate.

Year.	Maximum.	Minimum.	Average.
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
1891.....	3.0	3.0	3.00
1892.....	3.0	2.5	2.70
1893.....	2.5	2.5	2.50
1894.....	2.5	2.5	2.50
1895.....	2.5	2.0	2.10
1896.....	2.0	2.0	2.00
1897.....	2.0	2.0	2.00

The law of June 9, 1857, had renewed the privilege of the Bank for thirty years, until December 31, 1897. This law had been made more than ten years before the lapsing of the privilege, which, by the law of June 30, 1840, had been prolonged until 1867. This time they waited much later, since the law renewing the privilege again was promulgated on November 17, 1897, not a month and a half before the old privilege expired.

We will note here nothing but the special new points of this law, the official text of which is, besides, a current document. For this we will follow the order of its articles.

The privilege is prolonged for twenty-three years, ending December 31, 1920; however, a law passed by both Chambers may bring the privilege to an end on December 31, 1912.

The agricultural syndicates, whose legal existence dates from the law of 1884, will be able henceforth to discount at

CHAPTER VI.—*The Bank of France—Renewal of its privilege—Present situation—Its rôle in the crisis of 1906.*

Renewal of the privilege, law of November 17, 1897.—New duration of the privilege.—The agricultural syndicates and discount.—Incompatibility of the duties of governor and deputy governor with all legislative authority.—Operations for the benefit of the Treasury.—Extension of the number of branch offices.—Profits above 5 per cent shared with the State.—The maximum of issue is extended.—Falling off in the commercial discounts of the Bank of France from 1880 to 1896.—The extension of business in 1899–1900 and the demand for gold.—The Bank of France discounts English commercial paper.—Necessity for a bank of issue to have the right to discount foreign paper.—The solidarity between banks of issue of various countries is established naturally by the action of the law of supply and demand, and by the course of international business affairs.—State royalties.—Royalties paid by the Bank to the State.—Taxes on bank notes.—Remarks on the revenue of the Bank of France.—The revenue from discounts is encumbered with heavy expenses.—Advantages of revenue on loans.—Royalties and taxes compared to the total expenses.

We left the Bank of France, above, at the moment when it intervened in 1891 in the matter of the suspension of the Société des Dépôts et Comptes Courants. From this time on, until the renewing of its charter in 1897, nothing happened particularly worthy of note. It may be observed, however, that the gold reserve had a tendency to increase, and likewise the circulation of notes, as may be seen by the following table, which gives the average totals of the commercial discounts and the loans:

[Million francs.]

Year.	Reserve.			Circulation of bank notes.	Discounts.	Loans on securities.
	Gold.	Silver.	Total.			
1891.....	1,279.1	1,254.7	2,553.8	3,084.6	760.7	298.4
1892.....	1,547.4	1,279.1	2,826.5	3,151.3	550.4	296.9
1893.....	1,684.8	1,271.2	2,956.0	3,445.5	579.3	302.8
1894.....	1,821.0	1,262.7	3,083.7	3,476.5	564.6	290.8
1895.....	2,047.9	1,243.7	3,291.6	3,526.6	543.6	312.0
1896.....	1,978.0	1,244.4	3,222.4	3,607.0	693.4	363.7
1897.....	1,962.7	1,222.0	3,184.7	3,687.0	730.4	358.0

National Monetary Commission

the Bank paper at a maximum maturity of three months, bearing the signatures of their representatives.

The duties of governor and deputy governor of the Bank were becoming incompatible with a seat in the legislature. Senator Magnan had to resign. He was replaced by M. Georges Pallain, who had been one of the most eminent collaborators of Léon Say in the Ministry of Finance, and left the post of Inspector-General of Customs to assume the governorship of the Bank, which he still holds.

A change which was new in its tendency was that the Bank from 1897 to 1920, inclusive, must hand over to the State twice each year a royalty equal to the proceeds of one-eighth of the discount rate multiplied by the total productive circulation, without its ever being less than 2,000,000 francs.

The state loans granted by the Bank in those previous agreements, one of 60,000,000 francs at 3 per cent, the other of 80,000,000 francs at 1 per cent, or 140,000,000 in all, ceased to pay interest to the Bank. Henceforth, these 140,000,000 francs advanced to the State cost the Treasury nothing.

Moreover, the Bank engaged to put at the disposal of the State, still without interest, and during the whole continuance of the privilege, an additional 40,000,000 francs.

The Bank was compelled to make gratuitously a certain number of transactions for the benefit of the Treasury: Payments of coupons, issues of French government securities, collections of drafts drawn on the Treasury, etc.

Evolution of Credit and Banks

This law provided, besides, that branch offices should be opened in all the departmental capitals not yet supplied with them, and auxiliary bureaus were also to be created.

In case the rate of discount rose above 5 per cent, the resulting proceeds must be deducted from the sums to be divided annually among the shareholders: A quarter is added to the capital of the company; the rest reverts to the State. This case has not arisen even in the crisis of 1906-7, the effects of which made themselves felt from the United States upon England, and from England upon France.

The limit of issues of the Bank, which the law of January 28 had fixed at 4,000,000,000 francs, was carried to 5,000,000,000 francs.

Finally, the Bank is bound to weigh in the reserves of its branch offices and auxiliary agencies and to transport at its own expense to the mint the light-weight gold pieces that the Minister of Finance has ordered to be recoined.

Under the prudent and skilful direction of M. Georges Pallain, the Bank has prospered since the renewal of its privilege; it has performed with unfailing efficiency the functions for which it has been fitted by historical events. This is clearly proved by the following facts:

DISCOUNTS.

After 1885 the commercial discounts of the Bank had decreased. In 1894 the total discounts of the Bank had fallen off 40 per cent in comparison with those of 1880. The extension of discounting operations by the great

National Monetary Commission

credit societies has certainly exerted an influence on this decrease, which was mentioned, besides, in the official report of the operations of the Bank for 1894. But since 1896, as we have already seen by the table given at the beginning of this chapter, the average discounts increased in 1896-97. But there was a drop in 1901-2; then a recovery in 1903, reaching in the panic years 1907 and 1908 the respective sums of 13,900,000,000 and 15,700,000,000 francs.

We give in the following table the sum total of annual discounts, and their average total, beginning with 1897, as well as the maximum, minimum, and average rate of discount:

[Million francs]

Year	Sum total discounts	Average discounts	Rate of discount		
			Maximum	Minimum	Average
			Per ct	Per ct	Per ct
1897	10 364 8	730 4	2 0	2	2 00
1898	11 032 1	797 8	3 0	2	2 20
1899	11 746 0	828 3	4 5	3	3 06
1900	12, 247 6	875 2	4 5	3	3 25
1901	9 936 3	592 4	3 0	3	3 00
1902	9 555 9	546 3	3 0	3	3 00
1903	11 685 0	688 0	3 0	3	3 00
1904	10 834 3	699 6	3 0	3	3 00
1905	10 967 6	640 6	3 0	3	3 00
1906	13 980 9	897 7	3 0	3	3 00
1907	15 769 0	1 125 7	4 0	3	3 45
1908	12 800 6	897 2	4 0	3	3 04

The modifications of the rate of discount after 1898 may be seen more in detail in the following table. Added to it are the rates on loans.

Evolution of Credit and Banks

Date	Dis-count	Loans
1898—December 2	Per ct 3 0	Per ct 3 5
1899—December 7	3 5	4 0
December 21	4 5	5 0
1900—January 11	4 0	4 5
January 25	3 5	4 0
May 25	3 0	3 5
1907—January 17	3 0	4 0
March 21	3 5	4 0
November 7	4 0	4 5
1908—January 9	3 5	4 5
January 23	3 0	4 0
May 29	3 0	3 5

It will be noticed that in 1899 the discount rate rose to 3.5 per cent, then to 4.5 per cent, and the rate of loans to 4 per cent and 5 per cent; the 4 per cent discount rate and that of 4.5 per cent for loans—which were still above normal—were maintained until January 11, 1900. Now, at the end of 1899, the discount rate was 7 per cent at the Imperial Bank of Germany, and 6 per cent at the Bank of England. Business had extended greatly since 1898. French capital was in demand abroad. The Bank of France, in the presence of this increasing demand, raised the discount rate to 4½ per cent, a rate that had not been charged since 1888-89 at the time of the failure of the first Comptoir d'Escompte.

The increase in the discount rate in March, and again in November, 1907, was brought about by a crisis caused by the tightness of money, originating in the New York market. This crisis was first felt in 1906 in the United States. A latent crisis, not very serious however, was already making itself felt in the markets of Europe. That

National Monetary Commission

of the United States rendered it much more acute. The London market, being in constant relations with that of New York, was first affected by the situation. The discount rate in London was raised to 6 per cent. But this barrier was not enough to check the flow of gold to places where it was needed, and greatly needed.

To defend its reserve the Bank of France could use the normal expedient of raising the discount rate; it did not do this in 1906, but had recourse to another equally normal expedient which the situation clearly demanded; it discounted English paper, and so made it possible for the London market to procure the capital necessary to alleviate its current crisis. This is, in fact, a proceeding which is much more economic, in the high sense of the word, than the rather archaic one practiced formerly of making discreet loans of gold to the Bank of England. In the following year, 1907, the crisis grew worse. Discount at the Bank of France went up again to 3½ per cent and then to 4 per cent. The Bank of France intervened a second time, discounting English paper. The report of the operations of the Bank for 1907 states that in this way a ready capital of more than 80,000,000 francs in American gold was furnished to the London market. In another direction, the Bank of France opposed no obstacle to the shipments of French gold to New York, which were furthered by the Bank's making its normal commercial discounts. Finally, the discount rate remained 3 per cent lower in France than in England or Germany.

In this way, the action of the Bank made itself felt, not only on the French market but also on the inter-

Evolution of Credit and Banks

national, and particularly the English market. Making discounts on foreign paper must be considered, to-day, a very normal means of establishing useful relations between the different markets, and of applying the law of supply and demand of capital in an intelligent and profitable manner for the country which furnishes its capital. Not making foreign discounts is a deficiency which the Bank of England adds to its lack of elasticity of issue. The Reichsbank has a foreign "portfolio" which has increased in importance from year to year. The Bank of France has the right to discount foreign paper, and has used it very ably, thanks to the enlightened direction of its governor, M. Georges Pallain.

This proves that the alliance of all the banks of issue of Europe, which a former Italian minister proposed to establish some time ago, an alliance prepared by the Governments with the idea of ending in a final consortium of these banks, is not only useless but dangerous. There is no need of official intervention, of contracts with binding clauses, to create a solidarity between these establishments. This solidarity is established when necessary, either directly, if the banks of issue have the privilege of discounting foreign commercial paper, or indirectly, by the credit companies or the intermediary banks. The intervention of one or another of the banks of issue in favor of a foreign market is therefore free, and so much the more useful on that account, because this action is performed in response to a solidarity dictated by the positive interest that the bank has in intervening, since it derives profit from so doing. But it can not be

National Monetary Commission

repeated too often—the right of making foreign commercial discounts is to-day undeniably useful for a bank of issue.

According to the law of November 17, 1897, renewing the privilege of the Bank of France, this establishment owed a royalty to the State equal to the proceeds of one-eighth of the discount rate multiplied by the total of the productive circulation, the payment not to amount to less than 2,000,000 francs. The average of productive circulation is calculated by the decree of June 24, 1878. In making this estimate a statement is made out for each working day, for Paris as well as the branches, of the debit balance under the following heads: Discounts; loans on securities, on gold and silver bullion; notes payable to order, and in circulation. This statement is added up and then divided by the number of working days, thus obtaining the average productive circulation of the Bank for the year. Here is the table of royalties paid by the Bank to the State since the law of 1897:

	Francs.
1897	2,742,000
1898	3,343,000
1899	4,857,000
1900	5,655,000
1901	4,107,000
1902	3,777,000
1903	4,314,000
1904	4,521,000
1905	4,225,000
1906	5,333,000
1907	7,357,000
1908	5,538,000

The Bank pays the State, in addition to this, a stamp tax on the circulation of its notes. For the assessment

Evolution of Credit and Banks

of this tax a distinction is made between the productive and unproductive circulation. The first is subject to a tax of 0.50 franc per 1,000, the second to a tax of 0.20 franc per 1,000.

This stamp tax, paid by installments, was 1,404,632 francs in 1908. The unproductive circulation of the Bank is very high. About two-thirds of this circulation represents metallic reserves of gold and silver. If to the stamp tax on the notes are added printing and book-keeping expenses for these notes, the total probably exceeds 2,000,000 francs a year.

The Bank of France has three great sources of revenue:

(1) Revenue from discounts; (2) revenue from loans on securities; (3) accrued interest on securities held by the Bank.

In addition, certain other minor revenues are given under the heading "miscellaneous" in the following table:

Revenue.	1906.	1907.	1908.
	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>
Discounts.....	27,998,000	39,523,000	27,935,000
Loans on securities.....	18,256,000	23,320,000	20,677,000
Accrued interest.....	10,302,000	10,436,000	10,646,000
Miscellaneous.....	4,188,000	3,904,000	4,242,000
Total.....	60,744,000	77,183,000	63,500,000

The importance of revenue from loans on securities will be noticed here. This revenue entails much less expense than the revenue from discount. Discount requires a whole army of collecting clerks, in Paris as well as in the branch offices and bureaus. In order to collect bills the debtor has to be visited at his place of

National Monetary Commission

business or residence. In the case of loans on securities it is the debtor who brings what he owes to the windows of the bank. If to the revenue of loans on securities are added the accrued interest (*arrérages*) it will be seen that these two represent very nearly half the revenue of the Bank, and certainly more than half the profits, inasmuch as the accrued interest costs nothing but the safe-keeping of these securities, and the expenses of loans on securities are much less than on discounts.

Here is the comparison of the expenses of the Bank of France and the royalties and taxes paid to the State. The taxes in the total given here include not only the stamp tax on the bank notes, but also the stamp tax on shares, and the 4 per cent tax on the interest on loans to the companies, plus the direct taxes.

	1906.	1907.	1908.
	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>
Royalties and taxes paid to State.....	8,721,000	11,082,000	9,121,000
Total expenses.....	26,574,000	30,998,000	28,604,000

It is therefore about a third of the expenses that are represented by the payments turned over to the profit of the State by the Bank.

GENERAL CONCLUSIONS.

First period: The slow and difficult conquest of its complete privilege by the Bank of France.—Second period: Period of transition. The beginnings of the credit system.—The development of the credit companies and their increasing importance. Rapid adaptation to surroundings.—Rôle of the Bank. It is the mainstay of the credit organization of France.

The conclusions arising from this account, in which we have tried to present the principal facts of the evolution of the banks and credit in France since 1800, may be summed up as follows:

In the first period, of which our first part treats, we see the Bank of France modest, at its beginnings, in spite of the determination of Napoleon I to make it a state bank, gradually freeing itself from this compromising function. The escape from this danger was due: First, to its regents, who were experienced bankers or merchants; second, to the wisdom of two of Napoleon's ministers, Mollien and Gaudin. The Bank became in this way the bankers' bank, the bank of rediscount which it has since remained. It profited by the tendencies of its founder, Napoleon, to obtain the exclusive privilege of issuing bank notes in Paris. It passed successfully through formidable political crises; saw several changes of government. Little by little new inventions, the steam engine especially, revolutionized industry. Other banks of issue, called departmental banks, were founded. They lived and prospered in spite of defective corporation laws; they performed local services in the places where they were established. Then came the crisis of 1848. The Bank of France, which

National Monetary Commission

understood the usefulness of founding provincial comp-toirs, and already had several, desired to extend its activity. The Revolution of 1848 made it possible to realize this plan as a result of a series of rather unforeseen circumstances. An unprecedented panic at Paris gave the Bank an opportunity to make energetic and wise decisions. The departmental banks disappeared shortly after, much more as a result of this political accident than of a concerted plan. A sole bank of issue was produced in France as a result of a revolution whose programme was to suppress privilege.

Until then the Bank of France had been especially a local bank, the bank of issue for Paris. It owes to the wise and prudent banking traditions of the Paris bankers, its regents, the fact that it has remained a bank of redis-count. All around it, industry, progressing rapidly, brought into existence banks of speculation and investment. The Bank of France, however, joined in the general movement in this direction only with prudence.

The second period, to which our second part is devoted, was a time of transition. The Bank had won the exclusive privilege of issue for the whole country; it was only from this moment that it was properly called the "Bank of France." It became the center and mainstay of the credit system of France. The crises that it experienced were less severe than in the first period. It grew because wealth in general was increasing, because the railroads encouraged the creation of capital, especially in a country so gifted with the spirit of economy. It shared the ideas of prudence which in all that relates to saving are a part of the French character.

Evolution of Credit and Banks

However, in these ten or twelve years, years of incubation, legislation on corporations became more liberal; the laws of 1863 and 1867 gave better facilities for founding great industrial and commercial credit companies. The concentration of capital must be made to correspond to the concentration of industries that results from new inventions. This is a mathematical function of an economic movement. Then new credit companies were founded, which felt their way for a while, at a time when one of them, the Comptoir d'Escompte, produced by the events of 1848, had in its origin the form of the credit companies of the future. Founded for the purpose of acting as an intermediary between merchants, manufacturers, etc., and the Bank of France, it was the first bank which achieved the aim of the Bank for the public. The war of 1871 turned aside this development for a time, or at any rate, precipitated it. The terrible events which took place—the defeat of France, the payment of the war indemnity, the great loans, the great works for the extension of the economic plant of the country—produced still more credit companies, which did not reach over a wide area, banks which, although they engaged in operations of commercial banking, also took part in loan operations, made investments, etc., and that extensively.

Finally, in the third period, the methods of the credit companies became more clearly defined. They gradually extended their activity in France by means of numerous branch offices or agencies. The Bank of France followed the same movement, either of its own accord or by reason of conditions imposed by the Government. The

National Monetary Commission

present organization of credit began to take shape; the rôle of the credit companies grew in importance; they adapted themselves to the temper of the country and of their depositors; they engaged preferably in discounting, in short-date operations; they made every effort to render available by means of suitable investments the capital entrusted to them, which they received at sight in much greater amounts than on time. Finally, they took root on foreign soil and helped to invest French capital (which would be idle in France) in foreign securities. France, always economical, invested abroad in this way savings to the amount of some thirty-odd billions. This situation made France a creditor of many nations and gave it almost constantly a favorable exchange rate. It made it possible for the Bank of France, thanks to the prudent monetary policy inaugurated by Léon Say, to accumulate a formidable gold reserve. The Bank of France thus became a center of supply, not only for the credit of France, but for the important neighboring market of London.

Financial methods, too, had gradually been perfected. The Bank no longer had recourse to the premium on gold; although it lent the Bank of England directly a few years ago a large sum in gold, it was able recently to come to its aid economically by discounting English paper.

So, as we have often said in this study, in reality, the organization of the credit system of a country always adapts itself more or less to surrounding conditions. In France this adaptation has been taking place, especially in recent times, more rapidly than would have seemed possible thirty years ago.

Evolution of Credit and Banks

However, there are still several gaps in the organization of credit in France, and they are due precisely to certain of these surrounding conditions. Initiative in founding industries and boldness in planning new enterprises and new outlets for capital are not adequate to the needs of the productive power of the country. So, our special banks for advancing funds for silent partnerships in industrial enterprises (*commandites*) are few in number. There is, to be sure, one great concern, the Banque de Paris et des Pays-Bas, which is working in this field, conforming to the principle of the division of labor and of risks, exploiting its own capital and, unlike the credit companies, not accepting deposits, which latter could not properly be employed by this company for the operations in which it engages. It does business on a large scale only, and is organized for that purpose. So, it seems to us, that the very thing we lack in France are institutions of this same kind, which, working on a smaller scale, could perhaps give efficient aid to the transformation or creation of middle-sized industries.

APPENDIXES.

APPENDIX I.—*Note on the Crédit Foncier de France.*

Two systems of organizing land credit.—Historical sketch.—The Banque Hypothécaire, 1818-1846.—Bad mortgage laws in France until 1852.—Founding of several companies after this decree of February 28, 1852.—The Crédit Foncier de Paris.—The decree of December 10, 1852. It extends the privilege of the Crédit Foncier, and authorizes fusion of this institution with the others.—Influences of the Crimean war, 1854-55, bad harvests, and issues of other securities.—Administration.—Principle and system of land loans.—Securities with prizes.—Regular automatic amortizement by the periodic drawing of a certain number of obligations.—Simple mechanism of the Crédit Foncier.—Should a land credit company be centralized?—The Crédit Foncier is authorized to make loans to towns, etc.—Founding of the Crédit Agricole by the Crédit Foncier, 1861.—Bad operations of the Crédit Agricole. It was merged in the Crédit Foncier in 1876.—Capital.—The Banque Hypothécaire is merged with the Crédit Foncier.—Lowering of the rate of interest. The Crédit Foncier is obliged to submit to conversions. It makes conversions on its own account.—Loans to private individuals.—Town loans.—Statistics of mortgage loans.—Issues of loans. Rate and amortizement.

I.

The organization of credit on real estate, the introduction of deeds on landed property into the general system of paper currency, the prompt and easy negotiation of these deeds, the suppression of obstacles, the lightening of the burdens which encumber landed possessions, are some of the questions which have most occupied the public mind for sixty years back, and given rise to the most various projects and schemes.

Two different systems came under consideration at the start: Was it advisable to follow the German plan of forming companies of borrowers, that is to say, syndicates of landowners who issued certificates of liens and left to those of their number who desired credit the

National Monetary Commission

task of placing these securities and realizing on them? Or, was it better to form companies of lenders who should borrow on their own credit and lend to the private individuals who applied to them? The latter plan was preferred. Lastly, should there be a single company for the whole of France? Or, rather, was decentralization useful, and was it better to found a certain number of societies in the jurisdiction of various courts of appeal? After a short trial of the latter plan, the system of a single society was adopted.

This development was rapid. The Bank of France was fifty years in gaining its exclusive privilege for the whole of France; the establishing of the land bank monopoly was a matter of something less than two years. Centralization has always been the rule in France; it belongs to the system of political organization which concentrates everything in the Capitol.

Let us sum up briefly the evolution in France of the *Crédit Foncier*.

The first mortgage bank in France was founded in 1818 under the form of a commandite with the firm name of Deleuze, Briot & Co. It became a joint-stock company in 1820. It made loans for twenty years at 4 per cent plus the amortizement. It turned over to the borrower obligations which bore a fixed interest and were redeemable one-twentieth each year. It collapsed in 1848. Its failure was the result, first, of bad operations; second, of inadequate mortgage laws. The defects of these laws were (a) the absence of outer forms for the purpose of making the transfer of property rights with regard to a

Evolution of Credit and Banks

third person; (b) defective registration of encumbrances, such as charges for water rights, right of way, life rent, use, etc.; (c) defective information as to privileges and legal mortgages.

To Volowski is due the credit of bringing about the reform of this legislation.

An important decree, issued February 28, 1852, provided:

1. The option of discharging a debt by annual payments.
2. Each land credit association must have territorial limits.
3. These associations have the right to issue obligations or certificates of liens.
4. They can make loans only on first mortgages.
5. The loan must not exceed half the value of the property.

Expenses.—Maximum interest, 5 per cent; amortizement, 2 per cent or 1 per cent of the total of the loan; administration expenses, according to schedules established by the statutes.

Summary procedure in favor of land credit concerns.—Courts can not grant extension of time for the payment of annuities. Payments of annuities are not subject to attachment. The land credit companies may foreclose on the property by filing a petition with the presiding judge of the civil court, within fifteen days, at the expense of the debtor. During sequestration the land credit companies may collect any profits produced. The extensions of time for foreclosure are shortened.

National Monetary Commission

Several land credit companies were founded after this decree, but not without difficulty. They had as opponents the notaries who were then in the habit of making all mortgage loans.

A great association was founded at that time in Paris, with a capital of 25,000,000 francs; it got together by subscription 10,000,000 francs. Its statutes were approved by the act of August 3, 1852. It took the name of *Banque Foncière de Paris*, or *Société de Crédit Foncier*. The principal bankers of Paris were its stockholders.

Other associations of the same kind were founded at Marseilles and Nevers. Two others, at Lyons and Toulouse, were on the point of obtaining licenses when the decree of December 10, 1852, was issued. This decree extended the privilege of the *Crédit Foncier* to all the departments where institutions of this kind had not yet been founded, and authorized it to take over the land credit companies of Marseilles and Nevers. The *Crédit Foncier de Paris* then changed its name to the *Crédit Foncier de France*. In reality the obligations or certificates of liens of the land credit companies of Marseilles and Nevers had not been placed to advantage. They were new securities of a special kind, and the public was not well informed about them. The same thing was true, besides, of the *Crédit Foncier de Paris*.

This concern received from the State a subsidy of 10,000,000 francs. Its guaranty fund was placed at 60,000,000 francs, half of which was to be subscribed at once. It undertook to make mortgage loans to the amount of 200,000,000 francs, including interest, sinking fund,

Evolution of Credit and Banks

administration expenses, so as to wipe out the debt in fifty years.

But rigid regulations were established, based on mistaken theories; the State, or at least the ministers, thought that they and the *Crédit Foncier* together were strong enough to fix at will the interest on capital—a false notion, as future events proved. An issue of a loan of 200,000,000 francs did not succeed entirely. Another decree was passed (December 21, 1853) modifying the 5 per cent rate by setting up a movable scale, based on the average market price of government 3 per cents.

Operations were more successful after this. In April, 1854, the total of loans realized on amounted to about 50,000,000 francs. But the organization was not as yet paying the Government, and in reality the period from 1852 to 1854 had not been at all favorable. Bad harvests, the war, numerous issues of securities, among others railroad obligations, had increased the rate of interest and made the placing of the *Crédit Foncier* obligations very difficult. The annuity was increased successively from 5 francs to 5.44 francs, 5.65 francs, 5.95 francs, and 6.06 francs.

In order to remedy a situation which was due only to chance circumstances, a system of monopoly with state control was instituted, and on July 6, 1854, a decree bestowed on the *Crédit Foncier de France* an organization similar to the one of the Bank of France. At the head of this establishment were placed a governor and two deputy governors, named by the Emperor. The maximum rates imposed on the rates of the annuity by

National Monetary Commission

the preceding decrees were suppressed. The fact was at last recognized that the rate of interest is not a thing to be fixed by decree. This institution was placed in reality under the department of the Minister of Finance, and controlled by his representatives.

This régime has not been changed in its fundamental points.

The governor is named by the President of the Republic, likewise the two deputy governors.

The board of directors, composed of 20 members, is named by the general assembly of the stockholders.

The censors, three in number, are also named by the general assembly.

It is this combined authority—state inspection and the supervision of the general assembly of stockholders—that directs the operations of the *Crédit Foncier*.

II.

The principle on which land loans are based is that capital of this kind can be reimbursed but slowly. It is necessary, therefore, to make loans for a long term, and tie up capital for a certain time, and assure its partial return each year by a regular sinking fund. It is also important to have new capital available when it is needed, since the annuities collected each year must be devoted in part to a special use. The *Crédit Foncier*, in order to procure this capital, issues obligations on which it pays a rather small interest, for the reason that these obligations are issued with prizes. The bearers of obligations have the chance of winning prizes. This attracts purchasers, and the obligations are easily placed. The *Crédit Foncier* uses

Evolution of Credit and Banks

as an amortization for its borrowings the annuities that it receives from its debtors. This amortization is so planned that there is a rotation between the amortization, the payment of annuities, and fresh borrowings. Capital here changes hands more slowly than in an ordinary bank, but it circulates, one might say, automatically. There is, then, according to the needs, a demand for capital, and in proportion to the size of the sums borrowed by the *Crédit Foncier*, an amortization of this capital. Finally, a thing that we must bear in mind is that the obligation of the land credit, which in reality represents a lien on “immovable” property, becomes “movable” property which may be transferred and sold like all securities of this kind.

The mechanism is ingenious and simple; it acts automatically and regularly. But if the tool is fitted to the work it has to do, it must be added that the difficulty of the case in point is not to find capital and a scheme for its amortization, but to know how to lend this capital wisely, and to debtors who will be able to keep their engagements; then it is important not to loan on real estate that is likely to depreciate to any great extent, and to measure the loan by the property that secures it. Here is the chief difficulty, and it is in this connection that the question arises: Should a land credit company be centralized, especially when it is in a country with diverse and varying regions as to land, cultivation, industry, and density of population? Is it possible by sending agents from a distant central point to make sure of the approximate value of real estate? The *Crédit Foncier de*

National Monetary Commission

France seems to have succeeded in doing so, in the main because the loans are principally on city buildings and town lots. But in countries of wide area where the regions are unlike and where it needs an intimate knowledge of the locality in order to make investments with as little risk as possible, centralization is certainly not a method to be recommended.

There is furthermore another field into which the *Crédit Foncier de France* branches out. It has, in fact, been authorized (by the decrees of July 6, 1860, and February 28, 1862) to make loans to communes, departments, syndical associations, etc., with or without landed security. In the matter of communal loans, especially, the company is almost sure to be paid regularly and its pledge consists of the additional communal tax, the extra centimes voted by the town council to secure the loan. Properly speaking, then, this is not a question of land credit. These loans are made on special issues of communal obligations, whereas the issues for ordinary mortgage loans consist of land obligations.

Other decrees enlarged the scope of its activity. The act of January 11, 1860, had already extended its privileges to Algeria, and the same year the law of May 19 had substituted it for the *Comptoir d'Escompte* in the operations of this establishment with the *Sous-comptoir des Entrepreneurs*, an institution which made loans on building lots or on houses in process of construction.

Then the *Crédit Foncier* created a joint-stock company which was legally independent, but was in fact affiliated with the parent concern, and dependent upon it, since

Evolution of Credit and Banks

it was under the same management. This association was called the *Crédit Agricole*. It was chartered by the decree of February 16, 1861, and began operations April 1 of the same year.

The aims of this society were as follows: To procure capital or credit for agriculture and the industries connected with it, by making or facilitating by its guaranty the discount or negotiation of effects payable at the latest in ninety days; to open credits or loans for a longer period, but without exceeding three years, on pledge (*nantissement*) or any other special security; to receive deposits with or without interest, not exceeding twice the capital in cash or represented by securities placed in the company's safe; to open running accounts, make collections, to carry on, with government sanction, all other operations which aim at helping the clearing and improving of the soil, etc., and the development of agriculture.

But the *Crédit Agricole*, whose object was supposedly to help French agriculture, thought proper to loan a large sum—168,000,000 francs—to the Khedive of Egypt. This unfortunate speculation was on the point of bankrupting the company in 1876 when the *Crédit Foncier* absorbed the concern and straightened out its business as best it could, not, however, without losses to the amount of something like 9,000,000 francs.

As a result of uniting with the establishments we have mentioned, the *Crédit Foncier* had increased its capital successively to 60,000,000 francs, and at the end of 1869 to 90,000,000 francs. But this was only a nominal figure, since the 500-franc shares had been sold for only 250 francs.

National Monetary Commission

When it took over the *Banque Hypothécaire*—a joint-stock company founded in 1879, but without the privileges of the larger concern—its capital was increased to 155,000,000 francs. It is today 200,000,000 francs.

III.

The Crédit Foncier had from the beginning seen its rate of interest on loans regulated by the public authorities. The stupidity of this measure was soon perceived. It became free to follow the law of supply and demand for capital in this direction, that is to say, for capital to be used in land investments. It made loans, then, at 5 per cent and over. But the lowering of the interest rate on capital in general was especially evident after the war of 1870-71. The Crédit Foncier was not long in feeling the effects of this. Its debtors had, according to contract, the right to anticipate the payments of their loans, and they took advantage of this right on a large scale beginning with 1875. The city of Paris was its debtor for the sum of 283,000,000 francs, redeemable in 28 annuities. Seeing the state of the money market, the city could lessen its expense and find money at a cheaper rate. It had, therefore, the easy alternative of reimbursing the Crédit Foncier. This establishment did not allow other debtors to operate conversions in this way, but proceeded to make them on its own account.

A loan of 500,000,000 francs in communal obligations was issued by the Crédit Foncier on August 5, 1879. Shortly after, in September, 1879, another loan of 900,000,000 francs in land obligations was subscribed for with equal success. The Crédit Foncier, which had been loaning its

Evolution of Credit and Banks

funds to the city of Paris at 5.15 per cent before this conversion, now charged slightly less than 4 per cent or fully 1 per cent less.

The rate of interest was also lowered for ordinary mortgage loans made to private individuals. Besides, the two kinds of operations of the Crédit Foncier have special funds that have been borrowed for the loans of each of these branches separately; money borrowed on municipal obligations is applied to making loans to towns, syndicates, etc., and money raised on land securities is used for land loans to private individuals.

The lowering of the rate of interest increased the operations of this establishment. Beginning with 1882 it loaned to private individuals and towns 394,000,000 francs. In 1883 the total was nearly 300,000,000.

It makes loans of two descriptions:

1. Mortgage loans for long periods with amortization; the period may be from ten to seventy-five years, according to the plan chosen. The borrower may clear himself by advance payments. The interest on these loans is 4.30 per cent at the present moment, without commission.

2. Loans on mortgages for a short date without amortization; these are for periods of from one to nine years. The interest is 4.30 per cent, without commission; the borrower can not make advance payments.

The Crédit Foncier loans to the amount of half the value of the property, if it is a question of houses or arable lands, etc., and up to a third of the value if the loan is on woods and vineyards. This is easily explained. The woods may be cut down or destroyed by fire, the vines

National Monetary Commission

ravaged by phyloxera, mildew, etc. As for buildings of factories or mills, they are appraised only for their value taken apart from their industrial use.

The Crédit Foncier loans to communes, departments, and public establishments with or without amortizement. The rate of interest is 3.85 per cent for towns and departments, and 4.10 per cent for public establishments.

Here are the statistics for loans on mortgages since the founding of the Crédit Foncier, taken in ten-year periods except for the last, which comprises the years 1905 to 1907, or three years.

Period.	Number of loans.	Total of loans.
		<i>Francs.</i>
1843-1854.....	8, 861	546, 300, 000
1855-1874.....	12, 571	648, 900, 000
1875-1884.....	33, 262	1, 555, 000, 000
1885-1894.....	36, 914	1, 194, 800, 000
1895-1904.....	44, 019	1, 244, 700, 000
1905-1907.....	12, 898	388, 300, 000

The total of these loans from the time of the founding of the Crédit Foncier amounts to 5,577,000,000 francs, out of which 2,073,000,000 francs are still due.

The following are the statistics of the communal loans authorized by the law of July 6, 1860.

Period.	Number of loans.	Total of loans.
		<i>Francs.</i>
1860-1870.....	1, 266	693, 000, 000
1871-1880.....	998	505, 000, 000
1881-1890.....	14, 313	770, 000, 000
1891-1900.....	9, 951	1, 040, 000, 000
1901-1907.....	9, 832	678, 700, 000

Evolution of Credit and Banks

The total of communal loans since the decree of 1860 is 3,687,000,000 francs. The Crédit Foncier has collected 1,895,000,000 francs, and there are still due it 1,792,000,000 francs.

The Crédit Foncier has borrowed money, and still borrows, according to its needs, by means of issues of obligations with prizes. These are land obligations if they are issued for mortgage loans, and communal obligations if they are issued for town or department loans.

These issues of the Crédit Foncier for land loans (land obligations) have a rather slow amortizement.

Thus the loan of 1879 (3 per cent land obligations) is payable at the latest in sixty years; issue of loan of 1883 (land obligations), 3 per cent, in ninety-eight years; of 1885 (land obligations), 2.6 per cent, in ninety-five years; of 1895 (land obligations), 2.8 per cent, in seventy-five years; of 1903 (land obligations), 3 per cent, in seventy-five years; of 1909 (land obligations), 3 per cent, in seventy years.

For the last ten years or so it is seen that the time of reimbursement tends to decrease. As for the rate, it is seen that after issues made below 3 per cent from 1885 to 1895, the last two loans (land obligations) have been at 3 per cent.

For communal loans the rates and duration of amortizements are as follows: Loan of 1879 (municipal obligations), 2.6 per cent, payable in sixty years; of 1880 (municipal obligations), 3 per cent, payable in sixty years; of 1891 (municipal obligations), 3 per cent, payable in seventy-five years; of 1892 (municipal obligations), 2.6 per cent,

National Monetary Commission

payable in seventy-five years; of 1899 (municipal obligations), 2.6 per cent, payable in seventy-five years; of 1906 (municipal obligations), 3 per cent, payable in ninety years.

The obligations of the *Crédit Foncier* are very popular with the public.

The establishment is wisely administered and answers certain well-defined needs in the country. It has greatly helped, both by its land loans and its communal loans, in the improvement of towns, because of the aid it gives private individuals in their building operations, as well as by making it possible for towns to undertake public works and improve surrounding conditions.

Here are, in addition, the dividends distributed in the last few fiscal years:

	Francs.
1903	27
1904	27
1905	28
1906	28
1907	30

Let us add that the *Crédit Foncier* uses its free funds in discounting commercial paper and making collateral loans. On December 31, 1907, the various bills and securities figured in its balance sheet for 182,000,000 francs, and its collateral loans for more than 37,000,000 francs.

	Francs.
Its debtors owed the Company on December 31, 1907—	
Mortgage loans	2, 103, 800, 000
Communal loans	1, 788, 500, 000
	3, 892, 300, 000
It had in circulation at this date—	
Land obligations	2, 021, 000, 000
Communal obligations	1, 612, 900, 000
	3, 633, 900, 000

APPENDIX II.—*Note on the Crédit Agricole Mutuel.*

Societies of the Rayneri-Rostand type.—Durand banks.—Law of November 5, 1894. Creation of local banks of agricultural credit.—Causes of their lack of success.—Law of March 31, 1899. Founding of district banks.—Condition of the local and district banks.—Liability of the members.—Rates on loans.

On the outskirts, so to speak, of the general organization of banks and credit in France, a more specialized and less ambitious business than that we have studied in this treatise is carried on in the so-called *Crédit Agricole Mutuel* banks. We must not confound them with the *Société du Crédit Agricole*, related to the *Crédit Foncier*, the workings and the ill luck of which have been set forth in Appendix I. The object of the one and the others is indeed to make loans to agriculture; but while the *Crédit Agricole* (related to the *Crédit Foncier*) made loans at very long terms of payment, to be used on land improvements the outcome of which was more or less in the distant future, the banks of the *Crédit Agricole Mutuel* grant much smaller loans, with much shorter terms of maturity, and in order to meet immediate expenses. The transformation of capital arising from this last form of loans must in principle be much quicker, and the repayment, for the same reason, likewise quicker.

The characteristic of the *Crédit Agricole Mutuel* is to give a mutual basis to credit; to offer as security to the lender the joint responsibility of a company of people. Its existence and development are closely bound up with

National Monetary Commission

the laws sanctioning groups of individuals and with the progress of the spirit of association and solidarity. This explains the rather late appearance in France of a form of credit institution which had already been working in Germany since the middle of the nineteenth century—we mean the Raiffaisen and Schulze Delitzsch banks.

It is only after the law of March 21, 1884, organizing professional syndicates, was put into effect that we see the beginnings of the organization of the *Crédit Mutuel*. After various gropings about and a few setbacks—without serious material detriment, since it was all experimental—we see a whole series of banks taking shape, which we can class under three chief types: (1) The *Société Coopérative de Crédit Mutuel de l'Arrondissement de Poligny (Jura)*; (2) the societies of the *Rayneri-Rostand* type; (3) the *Durand* banks.

Société Coopérative de Crédit Mutuel de l'Arrondissement de Poligny was founded in 1885 with a capital of 20,000 francs divided into 500-franc shares. It was regulated by the law of July 24, 1867, on societies with variable capital. It lent only to its members; the maximum of credit for each member was limited to 600 francs; the loan was made for three months with privilege of renewal up to a year; the borrower had to furnish surety. He signed a note to the order of the society; the surety gave his indorsement on this note; the society added its signature and, bearing these three signatures, the note was presented for discount at the branch office of the Bank of France at Lons-le-Saulnier. The interest rate on the loan was higher by 1 per cent than the discount

Evolution of Credit and Banks

rate of the Bank. The Poligny Bank was imitated by five or six other banks started about the same time. Its statutes are models of prudence.

Societies of the Rayneri-Rostand type are rather more numerous; there are about 60 of them. They meet a demand for a more complete and widespread organization than do societies like the Poligny cooperative banks. They are under the influence of the "Federative Center of Popular Credit" (*Centre Fédératif du Crédit Populaire*), an organ of propaganda, having headquarters at Marseilles and founded on the initiative of MM. Rayneri and Rostand. This federative center continues the work begun by the "Society for the promoting of popular credit," started by Father Ludovic de Besse. Hence its origins, if not its tendencies, are ecclesiastical. It must be said that the banks of Rayneri and Rostand try—even if they do not always succeed—to observe absolute neutrality in regard to religion as well as politics.

The "Centre Fédératif" plays the part of adviser to the banks. These latter are perfectly free in their choice of method in realizing credit, and they follow their own interest, which is to adapt themselves to the special conditions of the environment in which they operate. They are encouraged by the State, and they organize and govern themselves as they please. Most of them act in concert with the agricultural syndicates. The Centre Fédératif has tried to get the savings banks to use for the advantage of local and regional federated banks the privilege given them by the law of July 20, 1895, of loaning part of their money to credit companies.

National Monetary Commission

Finally, the Durand banks have a very clearly defined ecclesiastical character; most of them are administered by the Catholic clergy. Their founder, M. Durand, a lawyer of Lyons, adopted in their entirety the principles of the Raffaisen banks of Germany, which are also purely ecclesiastical. They are based on the united and unlimited responsibility of all their members; they have no capital stock and borrow only the funds strictly necessary for loans and in proportion as loans are made. They lend to the members alone and for a maximum term of five years. Their resources come either from savings deposits to a small extent or from donations or legacies inspired by a feeling of beneficence and philanthropy.

There are about a thousand Durand banks. The average amount they loan is 370 francs, which shows that their clientèle is especially made up of small farmers.

On this organization of popular credit, due to private initiative, has been grafted an official organization, following the law of November 5, 1894. The aim of the lawmaker was to coordinate all these efforts, to extend them by combining them with the effort of syndicate organization, and to develop these two institutions, one through the other, by making them strictly and jointly liable.

So, then, the law of November 5, 1894, sanctions the union of credit banks and agricultural syndicates. *A priori* this union might be fruitful; each member of a syndicate being in principle a cooperator, it is easier to make him go in for mutual credit. On the other hand, one of the chief functions of agricultural syndicates is to

Evolution of Credit and Banks

furnish their members with fertilizers, seeds, machines, utensils, etc., sometimes even with the live stock needed for farming. Consequently the loan from the *Crédit Agricole* will most often be used in paying for these purchases. So there will be the certainty that the funds loaned will be well employed to productive ends, which increases the guaranty of repayment. Finally, the fact that the borrower belongs to an agricultural syndicate is a guaranty that it is really a farmer who is being benefited by the credit accommodation that people have tried to provide.

The law of 1894 minimizes the formalities and expenses necessitated by the creation of a bank of agricultural credit. It can be started with or without capital. In the latter case, it must stipulate the unlimited liability of its members, whether it operate under a firm name or as a joint-stock company. If there is a capital, all of it must be subscribed and at least a quarter of it paid in. With certain reservations, the societies have perfect freedom in drawing up their statutes; they may lend only to agricultural enterprises—they do not distribute any dividends; the personal shares receive a fixed interest. However, at the end of the year they may pay back to their clients a quarter, at most, of the profits, prorated according to the business their clients have done with the company. The other three-quarters are paid into a reserve fund.

Except for these restrictions the framers of the statutes are perfectly free in organizing, administering, and determining the conditions of dissolving the company,

National Monetary Commission

of widening its field of action, or limiting the responsibility of its partners.

Such as it is, the law of November 5, 1894, lends itself to the introduction into France of the various kinds of agricultural credit societies. Its terms are very broad. As we said in the beginning, it brought no innovations; it aimed merely to give an official and regular cast to the movement already started by private initiative, which had overstepped a little the bounds set by the lawmaker of 1884 to the activity of professional syndicates. In spite of this patronage the success was not remarkable. Five years after, in 1899, the companies founded under the provisions of the law of 1894 numbered only 83, according to statistics; a hundred of the same kind had been created but had not registered their statutes. Alongside of these, a thousand banks of the Durand type, or the Rayneri type, and a few autonomous societies were continuing to do business with their old constitutions.

Why were these agricultural credit banks so slow to develop? Because their private capital and their deposits were insufficient. It is not enough to wish to extend credit; means to do so must be provided at the same time. Without doubt the joint guaranty of the members and all the other kinds of guaranties which we have enumerated above were of such a nature as to facilitate the borrowings of local banks. But borrowing from whom? There are involved here loans of long and very uncertain maturities, according to the district. The risk is greater and of a different kind from that on the discount of ordinary commercial paper. The commercial

Evolution of Credit and Banks

bill represents a value already created, and you only have to wait to realize on it; the note of the credit bank represents a value still to be created; that is to say, a value subject to all the uncertainties of production and sale—uncertainties especially numerous where it is a question of agricultural products. So means had to be found to facilitate the discount of the paper of local banks if the movement was to progress at all; a second story had to be added to the building, hence the law of March 31, 1899.

We have said in our general study that the State had demanded from the Bank of France, as the price for renewing its privilege in 1897, a gratuitous loan of 40,000,000 francs and an annual royalty equal to the proceeds of one-eighth of the discount rate multiplied by the figure of the productive circulation, the payment not to amount to less than 2,000,000 francs. These two sources of income are going to be used for establishing discount funds for the credit banks.

To this end the law provided for the establishment of district banks patterned on local banks, but with functions more clearly defined. The district bank, like the bank of the first degree, rests on the principle of mutuality; money-making is not its aim nor dividing of profits, except among its clients in proportion to their dealings with it. It receives gratuitous and temporary loans from the State, the conferring of which is made every year by a distributing committee composed of senators, deputies, bank representatives, the governor of the Bank of France, etc. These loans must not, as a matter of principle,

National Monetary Commission

exceed a fourth of the capital paid in by the stockholders of the district bank; they are made for a term of five years, with the possibility of renewal. The district bank is authorized to receive deposits in the form of running accounts, and to issue notes, the total of which may not exceed three-fourths of the sum total of its discounts. This limitation is very open to criticism; the total of the discounts being essentially variable, it is very difficult to keep to this clause; the most one can do is to accept it as prudent advice to bear in mind.

Finally another resource not mentioned in the law, which nevertheless is one of the principal elements of the work carried on by the district banks, is the rediscount of bills indorsed by the local banks. Besides discounting these bills, they can make direct loans to the local banks for the formation of their working capital. These are the only two operations allowed them. The district banks do not lend directly to the farmers; they have relations only with their affiliated local banks. Borrowers go to the local banks.

A special department, "department of mutual agricultural credit and cooperation," established by the Government Board of Agriculture undertakes to watch over the workings of this organization of credit of the second degree. It makes a report every year to the President of the Republic on the condition of the district and local banks. We give below a few items taken from the last report:

Evolution of Credit and Banks

Statistics of the district banks subsidized by the State and of the affiliated local banks.
[Thousand francs.]

	1901.	1902.	1903.	1904.	1905.	1906.	1907.
Number of district banks of rediscount.....	21	37	41	54	66	74	88
Capital subscribed on December 31.....	(a)	2,927	3,419	5,073	7,086	8,261	(a)
Capital paid in.....	(a)	2,612	3,066	4,602	6,446	7,408	9,075
Gratuitous state loans.....	2,611	6,879	8,737	14,175	19,479	22,985	28,628
Loans of these banks to local banks at from 1 to 4 per cent.....	(a)	1,295	2,211	2,434	2,509	2,218	1,887
Rediscount of these banks for local banks (operations for the year).....	(a)	8,772	14,782	24,821	44,337	62,474	79,888
Reserves on December 31.....	(a)	73	195	362	651	1,026	1,481
General expenses.....	(a)	45	56	84	121	155	194
Sum total of deposits of funds for one year.....	(a)	(a)	(a)	(a)	3,363	6,721	6,825
Loans allowed.....	(a)	(a)	(a)	(a)	42,066	55,428	68,869
Loans in force at end of year on unexpired bills.....	(a)	(a)	(a)	11,950	18,185	23,877	28,321
Number of affiliated local banks.....	309	456	616	963	1,355	1,638	2,168
Number of associates (individuals; cooperative syndicates of productions, dairies, etc.).....	7,998	22,476	28,204	42,783	61,874	76,188	96,192
Subscribed capital.....	(a)	2,029	2,255	4,012	5,901	7,091	8,929
Paid-in capital.....	(a)	1,413	1,466	2,405	3,626	4,355	5,654
Value of loans during the year.....	5,170	14,302	22,451	30,235	44,162	56,789	70,708
Reserve funds on December 31.....	(a)	113	149	228	351	512	739
Local banks with limited liability.....	---	---	---	619	956	1,177	1,630
Local banks with unlimited liability.....	---	---	---	344	399	461	538
Loans not repaid at the end of the year.....	---	---	---	12,702	19,856	25,469	30,452

^a Unknown.

National Monetary Commission

The number of district banks increased from 21 in 1901 to 88 in 1907; their paid-in capital from 2,927,000 francs to 9,015,000 francs; the state loans reached 28,628,000 francs in 1907; loans to local banks, 1,827,000 francs; discounting operations, including renewals, 79,888,000 francs; their reserves, 1,481,000 francs; general expenses, 194,000 francs, or 0.28 per cent of the sum total of transactions. In 1907 they received 6,825,000 francs in deposits with an average balance of 600,000 to 800,000 francs.

But the progress made by the local banks is more interesting because they distribute credit. Their number increased from 309 in 1901 to 2,168 in 1907; their members from 7,998 to 96,122; the paid-in capital was 5,654,000 francs in 1907; the loans accepted in the same year 70,708,000 francs, of which 10,000,000 francs went to cooperative production companies, especially dairies, and to agricultural syndicates; the reserve reached 739,000 francs, and the current loans on December 31, 1907, were 30,452,000 francs.

The law of 1894 rightly allowed the founders every liberty in regard to the liability of the members; in three-fourths of the banks this liability is limited either to the shares subscribed, or to a multiple, or to the value of the harvest of each member, or to his capacity for credit; each district has adopted the system best suited to it. In the south especially most of the banks have adopted the principle of unlimited liability of all the co-members of the same local bank; this obtains particularly for almost all the local banks affiliated with the district bank of the south, which has its headquarters at Montpellier. Efforts are being

Evolution of Credit and Banks

made to generalize this principle which procures a wide credit for the companies which adopt it.

The tendency at the beginning, in local as well as district banks, was to allow loans at an interest rate lower than the ordinary market rate. It was a serious economic mistake which resulted in placing these banks and their borrowers in an abnormal and hence a dangerous situation. It ought to have been foreseen that when the gratuitous loans of the State could no longer be continued, the whole system would have to be changed at the risk of compromising the prosperity of these institutions. In the mind of the lawmaker, the object of the credit banks was especially to act as intermediary between the farmer and the Bank of France, to educate him in commercial practices, and to teach him to use credit. Now, in lowering the interest on money below the market rate, the borrower was deceived as to his real position and as to the terms which he has a right to obtain; it was made impossible to extend operations and render more kinds of service, since the banks could not discount their paper at the Bank of France without loss.

This situation was pointed out in the report to the President of the Republic for the year 1903. Here is the passage from this report in which the credit banks are advised to correct their methods:

“The Banks must face the possibility of the total or partial cutting off of the State loans, and anticipating this event, they must establish large reserve funds so if the case demanded they could increase their resources and consequently their credit and their power of discount with

National Monetary Commission

the Bank of France and other large institutions. An example will illustrate more clearly the situation of banks which discount below the normal rate. One of the banks which does the largest business, making very large loans, has been able to place in reserve after running three years only 30,000 francs or so, because it discounts at 2 per cent paper which it could not pass over to the Bank of France without losing 1 per cent. Other banks in similar circumstances lose from 1½ to 2 per cent when they are forced to procure funds by having opened for themselves a collateral loan account. Consequently, the more business they do beyond a certain figure, the more their profits diminish. It is the opposite of what happens in every well-regulated business, where the relative rate of general expenses diminishes in proportion as business increases."

A few banks have paid attention to these observations and changed their method of business in the way pointed out to them by the inspectors of the Ministry of Agriculture. Many have continued to give rates on loans lower than the normal interest rate.

To sum up, the *Crédit Agricole* was organized with a real privilege. The Bank of France furnishes capital to the State gratuitously, which loans it in the same way without interest to district organizations of rural credit. These latter can at their own pleasure lower the interest rate and compete with the bankers who would like to engage in these operations. It is an indirect means of protection. Has it brought about the expected results? That is, does this credit, deliberately made cheap by capital which does not pay any interest, really profit the small

Evolution of Credit and Banks

farmers whom it was meant to help? In some localities this end has been attained, at least in part, as in the departments of the south where property is divided because of viticulture. Besides, the crisis which has been severe for several years past in these regions, has led the vine growers to deal with agricultural credit banks. But very often, too, the cheapness of agricultural credit has helped the larger farmers, those who, better equipped, better informed on questions of credit, have really no need for this protection. They benefit by a reduction in rate of interest for which the Bank of France in the last analysis bears all the burden, since this reduction is only made possible by the gratuitous loan of 40,000,000 francs which the State exacted from the Bank of France when it renewed its privilege in 1897.

