

The Paris Bourse and the international capital flows

before 1914

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Considered as the golden age of international financial centres, the end of the XIXth century is a turning point in the long term competition between a few stock exchanges. Amongst them, London and Paris were in competition as international centres since the middle of the XIX th century. Before the First World War, London remained yet the most important capital exporter in the world (42%), followed by Paris (20%) and Germany (13%)¹. New York, although almost as large as Paris, remained a largely domestic market (8% of the global foreign investments). Concerning the one investment portfolio, whereas the London Stock Exchange (LSE) was undoubtedly the first one for the capital markets as a whole - including money market - the French savings were not so far concerning the foreign portfolio. From this perspective, the two main stock exchanges were specialised in different types of securities as Table 1 shows. The distribution between government and corporate securities is inversed between the two leading stock exchanges: Railways companies are more than 78 % of the foreign securities at the LSE and government bonds were concentrated in Paris, whereas other foreign securities were minor (about 9% by 1904, according to A. Neymarck²).

Table 1

The foreign portfolio in Great Britain and in France in 1913

Current values 1£=25F	Total of foreign securities (nominal value)
London	3 715 000 000 £
Paris (official market)	42 675 000 000 F (about 1 707 000 000 £)

Source : O. Moreau-Néret, Les valeurs mobilières en France, Paris, Sirey, 1939.

N.B.: Of course methodological precautions must be taken about these statistics. First of all the nationality of the companies is difficult to establish: is it depending on the address of the registered office? on the nationality of the major shareholders? On the place where the company is setting its activity? The best example is given by the gold mining companies which are almost English, established sometimes in London, sometimes in Johannesburg, called by M. Wilkins “free standing companies”). As for the colonial securities,

¹ Y. Cassis, *Les capitales du capital. Histoire des places financières internationales 1780-2005*, Pictet, Zürich, 2005.

² A. Neymarck, *Les valeurs mobilières en France*, 1904.

they are considered either as a domestic or as a foreign investment or isolated, according to different economist and historians. Here, they are taken in account in the foreign statistics.

Secondly, there is some mix companies hard to classify: for instance, some French banks created foreign railways companies, which are classified as domestic ones (*Cie générale des chemins de fer brésiliens*, *Cie des chemins de fer de la province de Santa Fe*) but are not genuine French companies. Finally, the French Paris Bourse included also an unofficial market whose figures are not added here (about 23 billions of francs in 1913, almost foreign securities).

Nevertheless, even though the right figures are not easy to define, the scale of size has not to be changed.

So, considered as the second international financial centre in the beginning of the XXth century after London, Paris was at this time an attractive place both for investors and foreign issuers.

Amongst the factors that have affected the development of international capital flows toward the Paris Bourse, some macro-economic reasons are now well-known: first of all, the importance of savings in France compared to others Western countries set up an attractive reservoir of capitals for the whole world. From the savers' point of view, since the end of the war in 1871, the government stopped issuing large loans and allowed them, so fond of government bonds, to look for other similar profitable and secure investments. Moreover since the 1860s, the French *rente* began to be less profitable³.

Another reason pointed out by historians is the weak demand for capital from the industrial sector at that time which led to offer lots of possibilities for foreign issuers. This situation was enhanced by the commercial banks' attitude which preferred developing foreign investments more than domestic corporate financing⁴. So despite of several krachs and crisis at the foreign market in the 1880s and 1890s, (Panama in 1888, gold mining shares in 1895, ottomans loans, Russian bonds in 1905...), the foreign issues were more and more appreciated by the French savers. Beyond this statistics, we would like to develop a range of organisation's and regulation's reasons which could contribute to explain the specific situation of Paris; first of all its not irrelevant to precise the specificity of the French foreign investment and then to revalue some aspects of the architecture of the Paris Bourse, thanks to different archives.

1. Specific destinations and issues: Europe and Russia

³ See S. Homer and R. Sylla, *A history of interest rates*. Rutgers University Press, 1996. But the French savers used to reinvest in semi-public sectors securities like railways companies which were both guaranteed by the State and more profitable the *rente*.

⁴ At that time a polemic debate occurred between those which think that foreign investments did harm the French economy's needs for capitals and those which considered that the French corporations' growth were not enough dynamic to look for investments. But recent studies lead to think there was really an eviction effect against the domestic demand for funds. See M. Lévy-Leboyer and F. Bourguignon, *L'économie française au XIXe siècle*, Paris, Economica, 1986.

As Table 2 points it out, the French portfolio changed in geographic distribution between 1880s and 1914.

During the 1860s and 1870s, whereas the LSE foreign securities were almost directed towards America and only 1/3 towards Europe, conversely, European countries were the French favourite investment. Yet since 1880, Europe became less and less appreciated by the French savers in favour of Russia (France was then the first investor for Russian public and private securities), with a continuous growth of colonial investments. Since then, the French savers began to invest in American securities, almost US railways companies or Mexico, Argentina or Brazil public and semi public loans. In 1914, the global foreign portfolio was between 40 and 45 billions of F.⁵, (2/3 governments' bonds, 1/3 private securities). 13,2 billions of francs were invested in Russia, 13,5 billions of F. in the rest of Europe (especially Spain and Portugal). From another point of view, the Mediterranean area (« *mare nostrum* ») wan 9 billions of F⁶.

Table 2. The evolution of French foreign investments 1882-1914

% by géographique area	1882	1902	1914
EUROPE	58,38	36,42	22,2
RUSSIA	7,33	23,72	27,03
OTTOMAN EMPIRE	1,53	3,10	5,93
FAR EAST (China, Japan)	0,66	2,40	2,6
AMERICA (USA, Argentina, Mexico, Brazil)	4	12,72	20,44
AFRICA (dont Tunisia et Egypt)	23,66	6,18	12,97
COLONIAL EMPIRE (Indochine, Algérie)	4,33	3,43	8,79

Source : F. Braudel, *Histoire économique et sociale de la France*, Chap. IV, Volume 1, Tome 4, 1979. *These statistics include all kinds of investments, not only portfolio investment, which represented about two out third of the foreign global investments.*

It is generally admitted that the French choices depended on different factors like the political and diplomatic relationships between France and the other countries and also the geographic proximity of the issuers⁷. The Russian investments are one of the main examples of the savers attitude as a mix of political context, profitable and secure investment. Yet some other reasons can be pointed

⁵ Estimations from A. Neymarck, *Statistique internationale des valeurs étrangères*, 1911, and R. Catin, *Le portefeuille étranger de la France entre 1870 et 1914*, Paris, Jouve, 1927.

⁶ R. Catin, *op. cit.*

⁷ R. Catin, *op. cit.*

out. The architecture of the Paris Bourse, its institutions, its organisation seemed to have played an important role in its international development.

2. The unofficial market and the international capital flows

Officially, the Paris Stock Exchange was managed since 1724 by the *Compagnie des agents de change (CAC)*, a corporation of brokers which were supervised by the Ministry of Finance, an organisation becoming in fact a self regulating organization much as in the cases of London and New York⁸. The brokers - *agents de change*- got a monopoly of all secondary transactions in listed securities for a fixed number of members decided by the Government on the Paris Bourse. At the end of the XIXth century, there were only 70 offices allowed. The same organisation was set up for the local stock exchanges, 7 at that time. All along the century, as the CAC remained the same organisation despite the burst out of the financial market since the 1860s. Thus have been emerging several operators in a multi-polar place such as the *agents de change*, the investment banks, officials of the Ministry of Finance, notaries and some small banks specialised in securities transactions called *banquiers en valeurs*). Since the 1880s, the organisation changed and became concentrated around three main operators: *agents de change*, *banquiers en valeurs* and deposit banks. This new architecture appeared more and more clearly by the 1890s.

Thanks to the new tax set up by 1893, the effective organisation of the Paris Bourse appeared complex and the official market managed by the *Compagnie des agents de change* revealed a weak volume of transactions compared to the *coulisse* (Table 3).

Table 3. Taxes on securities transactions 1894-1896

	In millions of francs
Agents de change (province)	1 181 200
Agents de change (Paris)	8 217 400
Deposit banks	300 030
Others (<i>free market</i>)	15 983 870

Source : AEF, fonds Trésor, B 65767

Moreover, according to the Ministry of Finance the amounts declared by the deposit banks and the “*coulissiers*” are considered as undervalued (AEF, B 43346, note de la direction de l’Enregistrement et du Timbre, 1887). Several hundred of millions of Francs could have been diverted from the Government’s Treasury.

⁸L. Neal and L. Davis, “The Evolution of Rules and Regulations of the First Emerging Markets: the London, New York and Paris Stock Exchanges”, *Quarterly Review of Economics and Finance*, 45, May 2005.

An informal group of dealers, promoters, and speculators became more and more active as the financial globalisation was taking off and as the French *rente* need to be applied for, setting up an over-the-counter market spilled out in the streets around the Stock Exchange. Moreover, the brokerage on the OTC market was lower than on the official market. The rivalry between the two markets is now well known and it is not our purpose to describe here its episodes⁹. Nevertheless, it seems interesting to point out the special advantages of that unofficial market and to precise the difference between the two markets from an international perspective and their eventual complementarity's. For that was at this time a specific feature of the Paris Bourse. Despite of several legal proceedings against them, the outside brokers (the "*coulisse*") succeeded in developing a growing business, especially by the 1890s. By 1895, the outside market introduced and gambled on the gold mining companies' shares, thanks to its connections with the LSE intermediaries¹⁰. They created an active market, which met lot of success. Unfortunately, when the English speculators withdrew their money from the Paris Bourse, the outside brokers were not enough strong to face the prices' fall and several went to bankruptcy whereas merchant banks like Rothschild helped as market makers (counterpart). This scandal allied with the growing competition with the official market led to a new regulation and organisation of the two markets.

Since 1898, the outside brokers were no more allowed make transactions on listed securities (especially the government's bonds) and they established their own quotation. In 1901, they created two unions on the same model as the CAC: the *syndicat des banquiers en valeurs à terme* (105 houses and 159 members in 1901) and the *syndicat des banquiers en valeur au comptant* (85 houses)¹¹; a clearing house was set up and formal proceedings for entrance were defined as the CAC's model. But contrary to the agents de change, they were allowed to be market makers. The Paris Bourse was then under a double monopoly's control and this situation led to the revival of another free market; it seems very difficult to evaluate the size of this market, yet very small compared to the ex- *coulisse* or *marché en banque* (so called after 1898).

It is clear that the growth of an over-the-counter market coincided with the internationalisation of Paris. As a matter of fact, the outside brokers developed an important know-how on foreign securities and used to manage the arbitrages between Paris and the other European stock

⁹ For a complete story of the rivalry during the XIX th century, see P. Verley, "Les opérateurs du marché financier" in G. Gallais-Hamonno (ed.), *Le Marché financier français au XIXe siècle*, Volume 2, Publications de la Sorbonne, 2007.

¹⁰ In London at least four different mining exchanges were established between 1855 and 1895; in the 1890s, an after hours street market on the shares of the gold mining companies did not lead to the creation of a rival exchange because these securities and the intermediaries were admitted at the LSE. See R. Michie, *The London Stock Exchange. A history*, OUP, 1999. They were not really alternative markets "being mere after hours markets catering time differentials", R. Michie, "The London and New York Stock Exchanges 1850-1914", *The Journal of Economic History*, Vol. 46, n°1, 1986.

¹¹ AEF, fonds CAC, B 67 692.

exchanges¹². First of all, they have developed a special skill on forward market, which was officially forbidden in France until 1885. Since then, they were still the more competent on that market and remained on the first rank. They had established a long time before numerous connections with the others European financial centres, especially with London, Brussels and Berlin. Most of them came from the rest of Europe then becoming naturalized Frenchmen: in 1903, 47% were foreigners (especially German natives¹³). Moreover, the partners of these banks were connected with foreign financing's networks¹⁴, particularly with Brussels where some outside brokers had founded branches. Beyond this decisive advantage, the free market was a flexible and reactive one: it was open three times a day (only one session of two or three hours at the official market) and that enhanced the outside brokers' aptitude for foreign transactions. Some rules also helped the free market to establish its international position.

Yet in 1892, the "modus vivendi" settled between the *Agents de change* and the *coulissiers* allowed them to list ottomans securities, Spanish *rente*, Hungarian 4% and Portuguese 3%; conversely the *agents de change* only kept the Russian funds on the official market¹⁵: that distribution reflected the gap between the two markets in an international perspective.

By 1901, the outside brokers were allowed to work as *remisiers* (an intermediate broker) for the *agents de change*: it meant that they could make transactions for them with a grant of 40% discount on forward transactions' brokers commissions, 10% on the spot market's transactions and 20% on the rate of carrying over. Both corporations were interested in working together, above all at the foreign market, for which the discounts were very high (especially the ottoman securities).

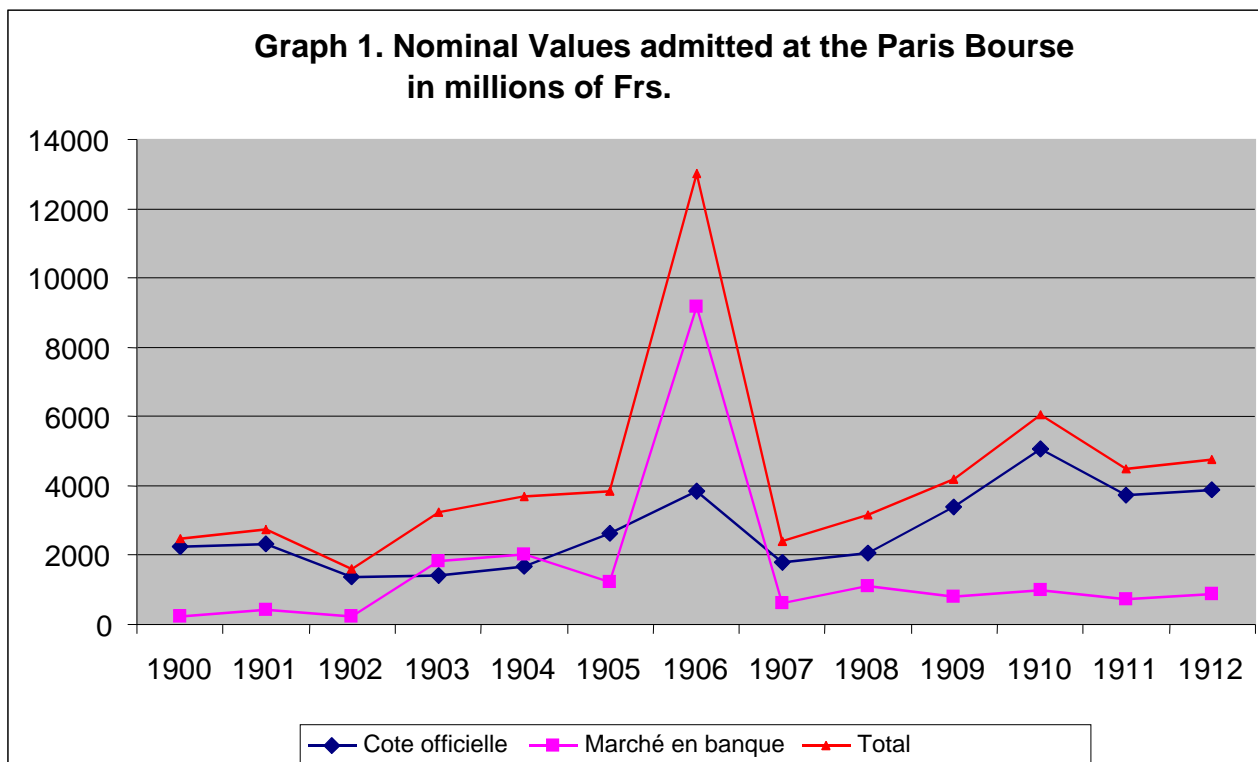
Nevertheless by 1913, thanks to the new regulations set up since 1898, the global situation of the official market seemed to take advantage. According to Neymarck, the total of nominal values at the Paris Bourse in 1914 was at the official market: 142 billions of Frs., at the OTC market: 23 billions and at the local stock exchanges: 5 billions.

¹² This activity was profitable because of the different opening hours of each stock exchange, which allowed the *arbitragistes* to buy and sell very quickly with high profits thanks to the development of telegraphs by the 1880s.

¹³ The LSE was also open to foreigners especially from Germany.

¹⁴ See P. Verley, « Les opérateurs du marché financier.. », *op. cit.*

¹⁵ AEF, B 43348, Note de la direction générale de l'Enregistrement et du timbre, 19/10/1902.



Source : A. Neymarck, La statistique internationale des valeurs mobilières, 1916.

N.B.: The 1902-1903 years appeared fine for the OTC Market which is beyond the official one. The OTC market has been shooting ahead during a few months thanks to the issue of the Spanish internal "rente" 4% (8, 5 billions of pesetas subscribed mainly by foreign investors) which led to an increasing amount of nominal values. Then it began to fell down and the gap between the two markets remained the same.

As a matter of fact, the situation was not so easy and simple for the official market, particularly on the foreign transactions, as table 4 points out:

Table 4. Nominal values of the securities on the Paris Bourse in 1913

Numbers of French securities	French government's securities	French shares	French bonds	Total France
Official market	1 326 001	2 034 810	3 293 772	6 654 583
OTC market	-	760 275	71 000	804 275
Number of foreign securities	Foreign governments' securities	Foreign shares	Foreign bonds	Total Foreign market
Official market	1 212 080	1 448 268	1 145 440	3 805 788
OTC market	11 571 680	60 000	330 425	11 962 105
Total Official				10 460 371
Total OTC				12 766 380

Source : A. Neymarck, La statistique internationale des valeurs mobilières, 1916.

On the outside market, the number of foreign securities was threefold important than on the official one, but the nominal capital of the issues was far weaker. More securities but less value of business: what was then the precise role of this market? First of all when we look at the distribution between the different kinds of securities during a decade, we can see the importance of industrial shares and bonds:

Quoted securities on the list of the OTC market 1899-1909

Foreign governments' securities	53
Foreign shares	135
Foreign bonds	82
Total	270

The details of an annual quotation are also interesting, showing the importance of mining companies' shares but also the number of industrial securities. The outside brokers used to launch on the Paris Bourse some securities which were listed at the LSE or at the Berlin Börse.

QUOTED SECURITIES ON THE OTC MARKET in 1901

<u>Securities on the spot market</u>	
Foreign government's funds: 35 (Russian, Serb, Turkish, Brazilian)	
French government securities: 1	
<i>Shares:</i>	
Insurance and banking: 18	
Railways and transportation: 22	
Electricity, gas, water cics : 18	
Metallurgy, Machines: 42	
Mining (except gold): 42 (De Beers)	
Gold mining: 63	
Newspapers, advertising:6	
Others: 63	
<i>Bonds</i>	
Railways and transportation : 25	
Electricity, gas, water cics, metallurgy: 17	
Others: 32 (Rio Tinto, Tonkin railways)	
<u>Forward market</u>	
3 foreign governments' securities	

7 industrial bonds

52 shares (almost gold mining companies) but no regular quotation

Source : ACL, *relevé des cotes boursières 1901*

As a matter of fact, the OTC market is a mix of good values of minor importance, or newly introduced on the stock exchanges, or speculative securities; but few securities issued on the OTC market have been then on the official list: only 6 between 1909 and 1914. It attracts either big investors or financial intermediaries. One of the main interests of the outside market for the professional investors was the only one account day by month (contrary to the official market on which two account days by months were set up) which allowed the great development of carrying over transactions enhanced by a lower brokerage's rate¹⁶. Besides, Paris was an important change place and it attracted many foreign investors like the Russian gentry¹⁷. Little savers were also lured by the high profits won with some securities like the gold mining' shares. As a matter of fact, the OTC market was also in competition with the local banks and the local stock exchanges and those institutions suffered from its lower brokerage's rate.

Beyond the own skills of the outside brokers, three kinds of reasons can explain their success in foreign transactions: one is linked with the agents de change's own organisation and the other is due to the Stock exchange regulations.

1° First of all, the CAC's monopoly based on a "numerus clausus" was not in favour of an international development: By 1914, the number of official brokers on the Paris Bourse was 70 whereas they were about 4500 brokers at the LSE¹⁸! Although the architecture of the two stock exchanges cannot be easily compared but in term of financial intermediaries, the demographic gap could partly explain the free market development. The New York Stock Exchange was in the same situation in the beginning of the XXth century, when on the two outside markets the Consolidated Stock Exchange and the Curb were traded a number of common shares more important than on the NYSE (53,5%)¹⁹. As its members refused to recognize the outside brokers and ti deal with them, it suffered more than the CAC from the free market's competition.

Moreover, according to P. Verley, the *agents de change* were not at all willing to develop foreign transactions as they did not find it useful to learn foreign languages... Moreover they did not prove any entrepreneurial behaviour preferring security to risk, being more officials than traders. Contrary to the LSE's members, they did not permit to buy or sell whatever securities that attracted them and

¹⁶ London was the other big market for carrying over transactions.

¹⁷ R. Girault, *Les emprunts russes et les investissements français en Russie*.

¹⁸ R. Michie, *The London Stock Exchange, op. cit.*

¹⁹ R. Michie, *The London and New York Stock Exchanges 1850-1914*", *op. cit.*

that attitude allowed the establishment of a street market becoming more and more active. Finally, they were under the ministry of Finance supervision, which could be interventionist on foreign governments' securities for diplomatic reasons.

2° Specific rules and taxations enhanced the development of the unofficial market:

The rules set up for listing on the official market were very constraining: stocks and bonds of the same company both had to be listed or not at all; they could be listed only if the number of securities were superior to 2 millions of Frs. Since 1867, the coupon of each security had to be superior to 500 F. That is why the De Beers' shares (its par value was 5£ or 125 F) has been introduced on the free market; idem for the Rio Tinto (10£). This rule led to paradox when the shareholders decided to change shares of 500 F. into shares of 200 F., as it happened for the *Régie des Tabacs ottoman* by 1890. This was quite different in the other international centres like London or Berlin, where coupons could be bought at 1£ to 10£. With such a rule, the official market lost about 1 billions of Frs. at the end of the 1890s. More than one third of the securities were listed on the outside market.

3° the third point but not the less important was the French tax system set up for foreign values. First of all, the way the income taxes are included in the companies' accounting differed in France than in other countries. The foreign companies included the income tax in overhead expenses whereas in France, the income tax was removed from the dividend paid to the investors. For example, the difference between a French railways' companies dividend and the foreign railways' one amounted to 0, 40 F per coupon.

The tax system changed several times in this period, because the authorities became aware of the disparity of taxing between the different kinds of security. To make it short, let's say that until 1895, the foreign government's securities were tax-exempted – except the income tax due on every security since 1872- , like the domestic ones. Conversely, the shares and bonds were taxed with an annual “droit de timbre” or an “abonnement” (the issuers paid once for three years). The “abonnement” was more advantageous and more frequent it was necessary for being listed at the official market; but once the company subscribed its securities, it was tempting for them to stop listing and be traded on the free market²⁰. 21 companies left the official list in 1895. Thus to pay less taxes, semi public companies' securities or securities guaranteed by the government were declared as foreign government's ones. By 1914 an official report estimated that over the total of foreign securities (40 billions of Frs.), 13 to 15 billions escaped from the taxation²¹.

²⁰ That reason was a good one before the 1893 tax reform which compelled the outside brokers to declare their transactions.

²¹ Quoted by R. Girault, *Les emprunts russes....., op. cit.*

The rules and regulations on the Paris Bourse set up gradually a hierarchy between the foreign or domestic securities leading to a reinforcement of the outside market. The well-informed public profited from that situation. Despite the Ministry of Finance's efforts to make the tax system more equal at the end of the XIXth century, some savers continued preferring foreign values and the outside market, perhaps risky but definitively more profitable.

The alliance with the deposit banks contributed to increase its influence.

3. The role of the deposit banks in the securities transactions

Since the second half of the century, the deposit banks were more and more active on the stock exchange, as for launching issues with merchant banks, as for underwriting securities or as for buying, selling and keeping securities for their own customers. When they launched issues on the market, they received comfortable commissions (underwriting commission or guarantee commissions...). In trading operations, different rules advantaged them compared to other intermediaries. On the one hand, the deposit banks were allowed to pay only one tax on the larger of two matching orders passed in the same session on the same securities (*franco de courtage* or "*par contre*"). On the other hand they were sometimes granted with brokerage commissions' discounts, although this practice was forbidden by the CAC. Conversely, the discounts on the securities transactions made on the outside market were more and more important²². When clients placed securities in safe deposits at their bank, this one was sure to monopolize all the securities transactions the savers would make... and get then all the benefits linked with the transactions.

They also helped the market functioning as they provided liquid assets for the carrying over transactions (40% of the capital needs between 1900 and 1914 according to P. Verley). Yet, this kind of transactions was submitted to a low brokerage. That's why they became formidable competitors of the brokers when they discovered the high benefits they could earn on the Stock Exchange trading.

To pinpoint the increasing importance of the deposit banks in the French system, the example of the *Credit Lyonnais* seems the more relevant. The CL paid the more tax on securities transactions than the others²³, and appeared moreover as a representative French institution with lots of branches within France and Europe. As we can see on table 5, the securities transactions' benefits of the bank were consequent:

²² In 1910, the discounts increased from 20% to 33%.

²³ Tax on securities transactions paid by the *CL* in 1894-1896: 121 857 000 F, by the *Société générale* 77 250 000 and 65 840 000 by the *Comptoir d'escompte*. AEF, B 65 767.

Table 5. Benefits on securities' transactions

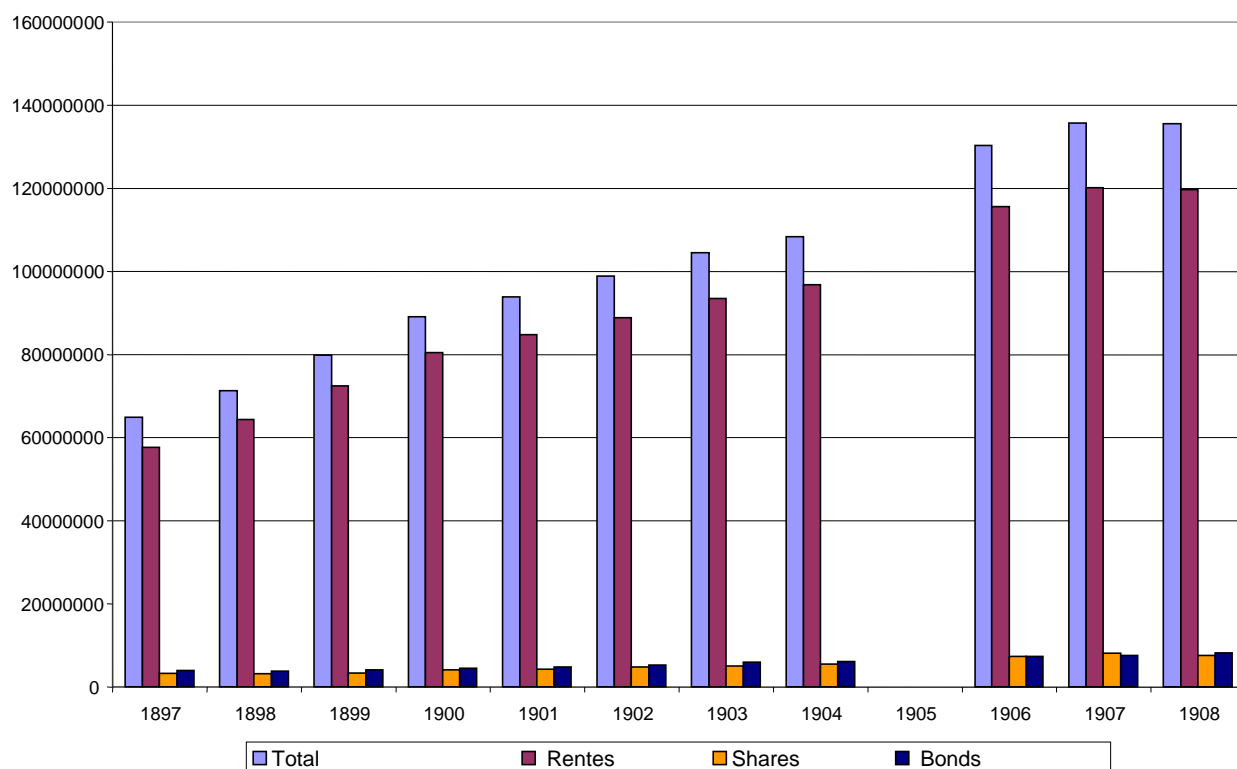
Years	Benefits in millions of Frs.
1893	3,22
1898	4,69
1903	6,21
1908	7,43
1913	8,23

Source : Archives du Crédit Lyonnais (ACL), Comptes de profits et pertes.

The importance of the securities placed by the deposit bank is pointed out in graph 3. The French and foreign government's bond prevailed in the CL customers' portfolio and compared to the average French portfolio at this time, the industrial bonds' investments were quite low, especially railways companies' bonds. As a matter of fact the advices given by the CL to its customers were linked to its own profits: the bank proposed rarely shares and bonds to its counters but almost "rentes" or governments' bonds in issuing of which it will earn commissions (as lead or co-lead manager, as underwriter...). So brokers, outside brokers and deposit banks shared out the savers' portfolio between them although the boundaries between the different institutions' customers are not yet very clear.

Graph 3. Numbers of securities placed at the *Crédit Lyonnais*

In millions of Frs.



Source : ACL, 98 AH 004.

The year 1905 is missing in the archives. Unfortunately domestic and foreign securities are not marked off in the document.

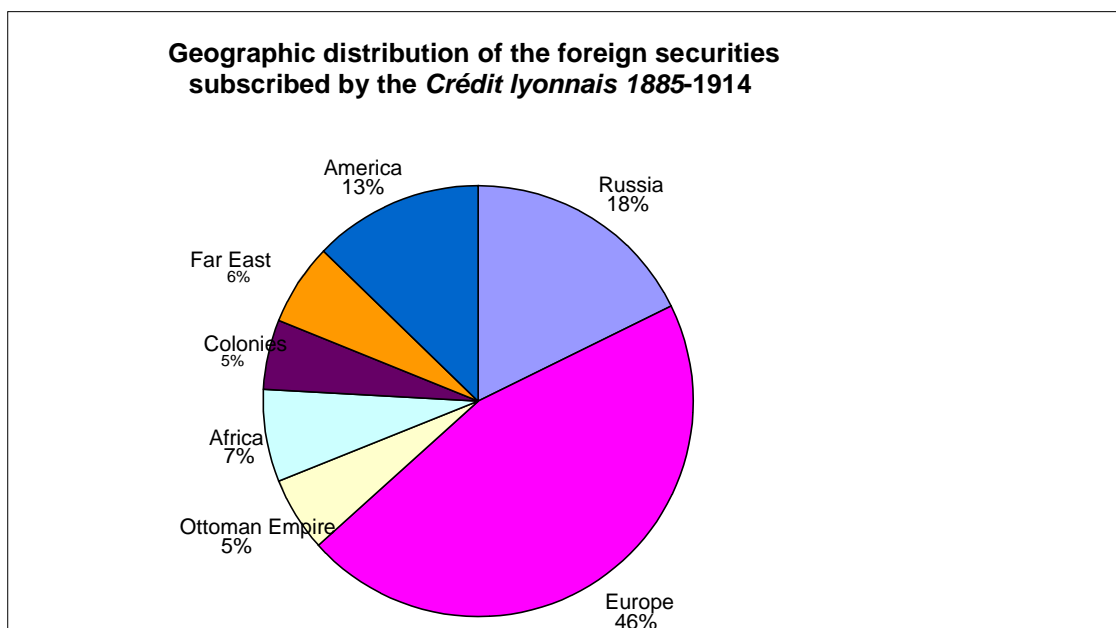
As for the foreign securities sold by the *Credit lyonnais*, the difference with the rest of French savers' portfolio is quite interesting (Graph 4 and table 6).

Between 1896 and 1914, the part of foreign securities' benefits amounted to $\frac{3}{4}$ of the total and the Russian securities half of the foreign benefits²⁴. The securities proposed by the bank between 1885 and 1914 were about 420, including 242 foreign or colonies' securities. The coupons were of various nominal value and the issues proposed at its counters were more important than the domestic ones. As Table 6 points out, the distribution was a little different from the global foreign investment: Europe, Far East and Africa are more often proposed to the CL's customers²⁵.

²⁴ J. Bouvier, *Le mouvement du profit en France au XIXe siècle*.

²⁵ Of course the comparison is not quite precise for on one side you have the number of issues and on the other side the volume of foreign investment. Nevertheless, as the issues were of the same volume, it is relevant to do it.

Graph 4.



Source : ACL, AH 086 /087

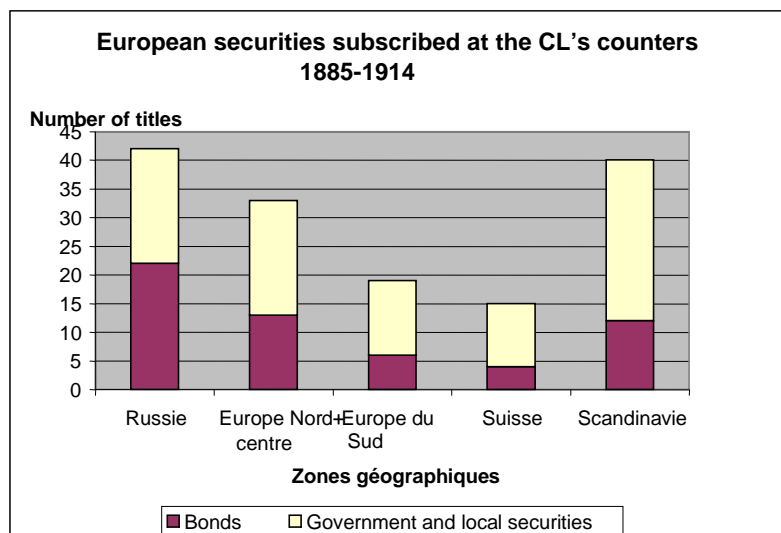
Table 6. The evolution of French foreign investments 1882-1914

% by geographic area	Average 1882-1914
EUROPE	39
RUSSIA	19,35
EMPIRE OTTOMAN	3,52
FAR EAST	1,88
AMERICA	12,38
AFRICA	14,27
COLONIES	5,51

Source : R. Girault, op. cit.

Within European countries, it appears quite different from the usual French investment's portfolio:

Graph 5



Source : ACL AH 086 – 87

These statistics help to demonstrate how a big deposit bank could have influenced the investments of savers and thus played an important role on the Paris Stock Market. First of all Henri Germain the famous founder of the *Credit lyonnais* recommended to his branches to choose investments according to criteria based on safety more than on liquidity or return²⁶.

Then the European strategy of the *Credit Lyonnais* influenced partly its branches' investments; it explained for instance why the Scandinavian securities were much more placed at its counters than in the rest of the Paris financial market throughout the 1890s. From the Scandinavia point of view, the Paris Bourse became an attractive market whereas London was almost interested in America and Berlin was considered as too expensive. Thanks to their tight links, the *Credit lyonnais* and the *Stockholm Ensilda Bank (SEB)* created a guarantee consortium to launch about 40 Swedish or Norwegian issues in France within thirty years and the two banks shared the lead management for all the government's loans from 1890 until 1900²⁷. Consequently, the CL placed the Scandinavian issues prior to any others; moreover none of these securities were on the official list and only a few of them on the unofficial market. The bank used also to sell to its customers several loans of the *Banque de la noblesse russe* inside its branches (called "vente en cave"); but this practice was

²⁶ ACL, 85AH1. Of course, governments' loans seemed the more secure investments.

²⁷ U. Olsson, « Le Crédit lyonnais et la SEB » in B. Desjardins, M. Lescure, R. Nougaret, A. Plessis, A. Straus (eds), *Le Crédit lyonnais 1863-1986. Etudes historiques*, Genève, Droz, 2003.

forbidden by the 1907 rule on company's information. Another feature pointed out from the archives is the London branch's connection with the domestic branches, by passing then the official networks. Since the gold mining shares' boom on the European stock exchanges, the London's branch received important funds from the CL's domestic branches²⁸. By 1895, its own benefits on securities transactions have gone up 153%! A precise example concerns the nine Japanese funds which have been bought between February and April 1909 directly by the domestic branches at London, with the help of the CL's branch established there (nominal capital: 1 892 800 yens). Only three out nine of the Japanese securities were proposed on the different French markets between 1905 and 1909 (listed or unlisted quotation). Only one (the Japanese 4% loan) was sold at the domestic counters...

Although we are not able now to estimate its trading volume because of the lack of documents, these examples do prove the existence of a third transactions 'channel within the deposit bank's branches.

The analysis of the securities placed by the *Credit lyonnais* also outlines the relationships between the outside market and the bank. As a symbol, until 1872, the *Credit lyonnais* hosted at its entrance the outside market; an alliance between deposit banks and outside brokers began then to set up. Moreover, as we have seen above, the deposit banks tried to trade prior with the *coulissiers* as the outside brokers' commissions were much more interesting for banks than the official brokers'. From the issuing to the underwriting, from the trading to the securities placing, without forgetting the role of the bank in carrying over transactions, the deposit banks played a central role for the liquidity and stability of the Paris Bourse.

This paper wanted to pinpoint the importance of the different securities transactions' channels, which have been sometimes undervalued in precedent studies. As a matter of fact, the Paris Bourse could not be well estimated without the free market and the deposit banks 'transactions. Nevertheless, statistics are still missing to give here a precise idea of the transactions' volume.

The free market had already been studied but was often considered as dying after the 1898 regulation. But as its organisation changed by 1901, it continued to prosper as an active market especially in foreign securities and new companies' issues. This "three pillars" architecture was a

²⁸ The funds provided for 30% of its means. See F. Gallice, "Le Crédit lyonnais à Londres 1870-1939" in *Le Crédit lyonnais, 1863-1986...*, *op. cit.*

Paris special feature due to the constraining rules of the *Compagnie de agents de change* and to the Ministry of Finances' interest into maintaining a free market. The close monopoly which was maintained despite the burst out of the Stock exchange's transactions led to the establishment of a free market changing itself into a second monopoly since the 1900s; whereas the bank deposits profited from the defaults of the regulation and of the lacks of liquidity of the brokers. The three institutions were then competitive but also complementary, each one finding its own customers. Finally, the local stock exchanges and the local banking system were the main victims of the system.

Could the Paris Bourse have been more "efficient" with another organisation? Undoubtedly the financial architecture is one of the comparative advantages a stock exchange can offer to its customers. But the first point in discussion is to consider whether the international capital flows resulted from specific institutional practices or not? The second one is to understand how different frameworks – and not only one model - have succeeded in financing economic growth on the long trend from different points of views: corporate financing, domestic economic growth, investors ...

To my opinion, this complex question could be answered only on the long term period. The *Belle époque* was then a golden age of the Paris Bourse when each intermediary could easily find the way to make benefits. At that time the lacks and defaults of the organisation could have been hidden by an apparent success of the Paris Bourse. How to conclude actually? The second international centre seemed to have provided for international investors and savers' needs; moreover the development of the Paris Bourse grew simultaneously with the international capital flows, each feature increasing the other one.

From this perspective, the aim of this work in progress is to study the architecture of the Paris stock exchange all along the XXth century.

ABREVIATIONS

ACL : Archives du Crédit lyonnais

AEF : Archives économiques et financières

CAC : Compagnie des agents de change de Paris

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