

## **Drawing a comparison between investment banks and commercial banks. What was the nature of French investment banks (in the 1920s-1930s)?**

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Within a long term research program about *Comparative investment banking history* and after two papers presented at the Copenhagen ("Starting a research program: Investment and merchant banking in France and Italy in the long run. Comparing models of corporate financing") and Geneva ("French investment banking at *Belle Époque*: the legacy of the 19th century *Haute Banque*") EBHA conferences, we shall here tackle the issue of the differentiation of investment banks against commercial banks in France in the interwar period, along with our concern of identifying the peculiarities of each layer of bankers<sup>1</sup> and with the long-term argument about the specialisation of banks and the banking economic model within the French national system<sup>2</sup>. And this survey will cover two decades when the reshuffling of European map and economy changed the patterns of growth for banks<sup>3</sup>. The French landscape of investment banking was then cemented<sup>4</sup>, with two leaders among commonplace quoted joint-stock companies, *Banque de Paris & des Pays-Bas* (or Paribas) and *Banque de l'union parisienne*<sup>5</sup>, far ahead of competitors (*Crédit mobilier français*, etc.), with one leading family merchant bank (Rothschild) well ahead of a few strong Paris classical merchant banks (or *maisons de Haute Banque*: Mirabaud, Lazard, Neuflyze, Vernes, etc.). On the other side, commercial banking<sup>6</sup> was assumed by large Paris corporations (*Crédit lyonnais*, *Société générale*, *Comptoir national d'escompte de Paris*), stronger and stronger regional banks, often coming out of mergers, some of them controlled by Paris *Crédit industriel & commercial*, and new comers on the Paris markets, often promoting "mixed banking business models" (*Banque nationale de crédit*<sup>7</sup> - which had absorbed investment banque *Banque française pour le commerce & l'industrie* in 1922; *Crédit commercial de France*, etc.).

The apex of growth from the mid-1890s to the turn of the 1930s favoured a rush to competition, and the 1930s crisis itself maintained somewhat part of it because of the needs of the the State or of international and colonial markets. Our intent is thus to determine how investment banks forged their competitive edge over their competitors from the commercial banking sector, which portfolios of strategical activities and of skills, which networks of connections and which ability to embeddedness, which portfolio of advising and issuing expertise they were able to sustain, and how much they resisted to the

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<sup>1</sup> Hubert Bonin, *Le Monde des banquiers français au XX<sup>e</sup> siècle*, Brussels, Complexe, 2000.

<sup>2</sup> Maurice Lévy-Leboyer, "La spécialisation des établissements bancaires", in Fernand Braudel & Ernest Labrousse (eds.), *Histoire économique et sociale de la France*, 3, first volume, Paris, PUF, 1976. Michel Lescure, "The origins of universal banks in France during the nineteenth century", in Douglas J. Forsyth & Daniel Verdier (eds.), *The Origins of National Financial Systems*, London & New York, Routledge, 2002. Youssef Cassis, Gerald Feldman & Ulf Olsson (eds.), *The Evolution of Financial Institutions Markets in 20th Century Europe*, Aldershot, 1995.

<sup>3</sup> See Harold James, Hakan Lindgren & Alice Teichova, *The Role of Banks in the Interwar Economy*, Cambridge and Paris, Cambridge University Press & Éditions de la Maison des sciences de l'homme, 1991.

<sup>4</sup> See Jean Bouvier, *Un siècle de banque française : les contraintes de l'État et les incertitudes des marchés*, Paris, Hachette, 1974. Alfred Pose, "Structure et méthodes bancaires", *Revue d'économie politique*, January-February 1939, n°1, special issue *De la France d'avant-guerre à la France d'aujourd'hui*, pp. 329-355.

<sup>5</sup> Hubert Bonin, *La Banque de l'union parisienne. Histoire de la deuxième banque d'affaires française (1874/1904-1974)*, Paris, PLAGÉ, 2001.

<sup>6</sup> See Maurice Gougne, *Tendances d'après-guerre des banques françaises de dépôts*, Paris, Sirey, 1934.

<sup>7</sup> H. Bonin, *La Banque nationale de crédit. Histoire de la quatrième banque de dépôts française en 1913-1932*, Paris, PLAGÉ, 2002.

challenges raised by monetary instability, by international uncertainties, and last to the krach of the mid-1930s. And our global purpose relies with the contribution of investment banks to the competitiveness of the Paris financial and banking market<sup>8</sup>, which has not yet been studied through an overall comprehensive approach – since a pioneering book<sup>9</sup> in 1922.

## I. Issues of geography

As a business and banking historian, we have been disappointed that nowhere in archives bankers did explicit the differentiation scheme which took form in the interwar period about the geographical strategy of French banks. Our reconstitution will thus be an artificial process, which will systematise the analysis of the evolution of the “space” where banks were active, of their strategical scope.

### 1. Investment banks as international powers

Despite no forthcoming declarations from managers or boards, nor archives, the French banking profession seems to have drawn invisible limits among commercial banks and investment banks about international deployment. One can presume that the loss of Russian assets and activities<sup>10</sup> somewhat put a halt to further expansion: the demise of huge interests there by *Société générale* and also *Crédit lyonnais* could not but hinder refreshed considerations to set a new strategy of expansion out of France – all the more because the State forbade exports of capital in the name of priority to inner reconstruction of destroyed north-eastern facilities. Both big banks only kept their London branch<sup>11</sup> – mainly for forex activities – and the sole large commercial bank to be active abroad was *Comptoir national d'escompte de Paris*, which used an affiliate, French American Bank Corporation, to finance operations with the US – but a history of this subsidiary is still missing –, whereas *Société générale* waited till 1940 to open a branch in New York, even if it preserved a little network in Germany, inherited from its affiliate in Alsace<sup>12</sup>. Rare efforts were to be found at *Crédit du Nord*<sup>13</sup>, but its little network in Belgium was just across the boundary and complementary to its northern stronghold, at *Crédit industriel & commercial*, which patronised a sister bank in Poland<sup>14</sup>, whilst several French banks<sup>15</sup> created in 1920 *Banque franco-polonaise*, in both cases of little dimension, because links connected industries of both countries, and because geopolitical alliance prevailed. Our sentiment is also that commercial banks gave priority to their competing struggle within France itself, because *Société générale* overpassed *Crédit lyonnais* in 1921-1928 for

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<sup>8</sup> See Hubert Bonin, “The challenged competitiveness of the Paris banking and finance markets, 1914-1958”, in Youssef Cassis & Éric Bussière (eds.), *London and Paris as International Financial Centres in the Twentieth Century*, Oxford, Oxford University Press, 2005, pp. 183-204.

<sup>9</sup> Edmond Baldy, *Les banques d'affaires en France depuis 1900*, Paris, Librairie générale de droit & de jurisprudence, 1922. Éric Bussière, “Les banques d'affaires françaises au xx<sup>e</sup> siècle : des établissements en quête d'identité ?”, in Maurice Lévy-Leboyer (ed.), *Les banques en Europe de l'Ouest de 1920 à nos jours*, Paris, Comité pour l'histoire économique & financière de la France, 1995, pp. 223-235.

<sup>10</sup> Roger Nougaret, *Le Crédit lyonnais en Russie, 1878-1920*, Paris, Crédit lyonnais, 1992. Hubert Bonin, *La Société générale en Russie*, Paris, La collection historique de la Société générale, 1994 & 2008.

<sup>11</sup> Hubert Bonin, *La Société générale en Grande-Bretagne (1871-1996)*, Paris, La collection historique de la Société générale, 1996.

<sup>12</sup> Hubert Bonin, “Un modèle ? La Sogenal, une banque régionale européenne (1881-2001)”, in Michel Lescure & Alain Plessis (eds.), *Banques locales et banques régionales en Europe au xx<sup>e</sup> siècle*, Paris, Albin Michel, 2004, pp. 390-410.

<sup>13</sup> Hubert Bonin, *Histoire de banques. Crédit du Nord, 1848-2003*, Paris, Hervas, 2004.

<sup>14</sup> See “Bank Slaski”, *La Pologne*, special issue *L'illustration économique et financière*, 27 October 1928, p. 256. The bank had been founded in 1922 in Katowice and the presence of French interests intended to assert co-operation in the integration of Silesien.

<sup>15</sup> Four banks: Paribas, *Banque de l'union parisienne*, *Société générale*, *Crédit industriel et commercial*.

deposits and credits<sup>16</sup>. Such a war of new networks and customership management was intensified by the growing competition from last-comers like Banque nationale de crédit, Crédit commercial de France and regional banks<sup>17</sup>, and from investment banks because those latter developed a strategy of collecting more and more deposits from their circle of firms being their clients.

### A. Investment banks' European expansion and connections

As a result of such abstention from commercial banks, in the meanwhile, investment banks had conceived a genuine strategy of expansion along the “new frontier” of European markets, in central Europe. They lost momentum in Italy (perhaps because of the new regime or moreover because of the structuration of local portfolios of knowledge in industrial finance), in Spain (because of regime troubles? Of the uncertainties about economy? Of emerging national banks?), in Mexico (because of the revolution? Or of lagging services to the national debt and securities?), in Brazil (because of the collapse of Brazil Railway Company?) and more generally in Latin America (because of growing UK and US interests?) – even if Paribas kept in touch with *Banque française & italienne pour l'Amérique du Sud* (Sudaméris); and they focused on pioneering markets. Sure, they had extended there their capital of experience before WWI – in Bulgaria for Paribas, for example, and *Banque de l'union parisienne* had established its bridgehead in Greece as soon as the 1900s –, but they launched a thorough offensive in the 1920s. Both investment banks certainly took profit from the relative decline of Rothschild Vienna, whose connections in the Austro-Hungarian empire had been unknitted<sup>18</sup>, and from the weakening of German influence in the Danubian area for a while. Both French investment banks conducted a parallel move, each one spinning its network eastwards.

Éric Bussière<sup>19</sup> showed how Paribas, already active in Belgium, the Netherlands and Switzerland through branches in Brussels, Amsterdam, and Geneva, succeeded in penetrating into the legacy of *Länderbank* from 1921 and in transforming it into a holding company, *Banque des pays d'Europe centrale* (with official headquarters in Paris and about 40 per cent of the equity lodged on the Paris market in 1922-1924, 20 per cent in Czechoslovakia, and 40 per cent attributed to the ancient owners from the ex-Austrian-Hungarian empire), which got interests in commercial banks in Austria and elsewhere through patronized establishments, where French representatives were present on Board (*Powszechny Bank Kredytowy* in Poland, etc.). But Paribas also set up footholds in Rumania (*Banque de crédit roumain*). On our side, supplementing initial Bussière's study<sup>20</sup>, we had scrutinized the policy of Banque de l'union parisienne to favour an array of commercial and industrial banks all over the area, indirectly, like Paribas, through links with *Zivnoztenska Banka* in Czechoslovakia (with an agreement of reciprocal share of operations and of the correspondancy function), or directly, in Hungary (with a participation to the 20 per cent stake from French interests in *Banque générale de crédit*

<sup>16</sup> Hubert Bonin, “Le Crédit lyonnais, la Société générale et les autres : essai d'appréciation des rapports de force (1864-1966)”, in Bernard Desjardins (*et alii*) (eds.), *Le Crédit lyonnais, 1863-1986*, Geneva, Droz, 2003, pp. 725-749.

<sup>17</sup> See Michel Lescure & Alain Plessis (eds.), *Banques locales et banques régionales en Europe au XX<sup>e</sup> siècle*, Paris, Albin Michel, 2004.

<sup>18</sup> See Bernard Michel, *Banques et banquiers en Autriche au début du XX<sup>e</sup> siècle*, Paris, Presses de la Fondation nationale des sciences politiques, 1976.

<sup>19</sup> Éric Bussière, *Paribas, l'Europe et le monde, 1872-1992*, Anvers, Fonds Mercator, 1992, pp. 109-122.

<sup>20</sup> Éric Bussière, “The interests of the Banque de l'union parisienne in Czechoslovakia, Hungary and the Balkans, 1919-1939”, in xxxxxxxxxxxxxxxx (eds.), *International Business and Central Europe, 1919-1939*, New York, 1983.

hongrois since 1920) and mainly in Greece, taking over Athens Bank (*Banque d'Athènes*<sup>21</sup>), the second Greek commercial bank<sup>22</sup> (but far behind National Bank of Greece) and in Rumania (*Banque commerciale de Roumanie*<sup>23</sup>, the third bank there). In all these countries, investment banks accompanied sister banks which practiced in fact mixed banking in favour of a circle of intimate industrial customers (mining, metallurgy, wholesale distribution, etc.), because their still backward economy required a range of classical commercial credits, a range of permanent loans quite assimilated with permanent funds, and support to issuings to transform these loans into equity, often with several terms to broker shares and their portage by their “in-house bankers”. Refinancing from Paris these partners constituted therefore part of the skills of French investment banks – which commercial banks rarely practiced, surely because of the scarcity of funds available for foreign operations.

Less based on ownership than on connections, a few participations allowed investment banks to get into networks of customers and partners through banking holdings and platforms throughout the 1920s. Avoiding French interests to dwindle against British or more uncertain ones, Paribas had got a hold in 1921-1923 on *Banque impériale ottomane*<sup>24</sup> which, even if it lost its role within Turkish monetary affairs, kept its connections throughout south-Balkan, Constantinople and the Near East areas; this latter for instance became the key partner of *Banque franco-serbe* in 1929. In parallel, Banque de l'union parisienne was often a partner of the deployment and operations of the *Société générale de Belgique* group in Central Europe, around *Banque belge pour l'étranger*, both setting links with Wienerbankverein and its own hub of connections.

## **B. European refinancing and financing by investment banks**

Beyond narration and a favourable outcome of such strategies – till the demise of the end of the 1930s because of German brutal take-over –, the very issue about such policies lies with the reality of influence and business which such stakes provided to French investment banks. If we use *Banque de l'union parisienne*'s history, we can reconstitute the opportunities of operations provided by such moves: Paris became a hub of cash, to refinance affiliates or partners on call, to help them face seasonal tensions of treasury and to resist recessions or crisis. Classically investment banks were located within international money networks: commercial banks and investment banks practiced the same process of raising cash in London (*Banque de l'union parisienne* through its correspondent Midland) or elsewhere, and using it for permanent credit lines to other banks all over Europe (with an amount of FRF 110 million in February 1930), for acceptance credits and documentary credits to French and Belgium banks – and *Banque de l'union parisienne* was a key partner when *Banque française d'acceptations* was created (lately) in 1929.

But core financing activities took shape in the 1920s. *Banque de l'union parisienne* for instance refinanced *Banque d'Athènes* at several times when it had to balance bad losses caused by rogue clients or slumps. We could pretend that investment banks acted as monthly lender of last resorts – whilst Bank of England and *Banque de France* fought to

<sup>21</sup> Hubert Bonin, “La Banque d'Athènes, point de jonction entre deux outre-mers bancaires (1904-1953)”, *Outre-Mers. Revue d'histoire*, 1<sup>st</sup> term 2001, pp. 53-70.

<sup>22</sup> Alain Plessis & Olivier Feiertag, “The position and role of French finance in the Balkans from the late nineteenth century until the second world war”, in Kostas Kostis (ed.), *Modern Banking in the Balkans and West-European Capital in the nineteenth and twentieth Centuries*, Ashgate-European Association for banking history, Londres, 1999, pp. 215-234.

<sup>23</sup> Hubert Bonin, “La Banque de l'union parisienne en Roumanie (1919-1935). Influence bancaire ou impérialisme du pauvre ?”, *Revue historique*, n°2, 1985, pp. 349-381.

<sup>24</sup> André Autheman, *La Banque impériale ottomane, 1863-1924*, Paris, Comité pour l'histoire économique et financière de la France, 1996.

godfather the central banks of central and Balkanic European countries from the mid-1920s to the mid-1930s. Both investment banks managed also huge amount of FOREX multilateral operations, because France did not import agricultural goods from these countries but exported manufactured goods, which required clearing operations on a European level, and the Paris FOREX departments took then profit from their connections throughout Europe, in Germany, Belgium or the Netherlands, mainly.

On its side, *Banque de l'union parisienne* leaned on a competitive edge against Paribas because it became the in-house banker of Schneider group in central Europe: in 1920 the Creusot firm had built a holding, *Union européenne industrielle et financière*, which supervised several affiliates in Poland (Huta Bankowa), Czechoslovakia (Skoda, *Banska a Hutni* mining and metals) or elsewhere, in metallurgy, armaments and engineering; and the bank was deeply involved in the financial and treasury operations of this East-West network. *Banque de l'union parisienne* supplied the group with permanent credit lines, acceptance credits, discount of bills, drafts, etc. – with an amount of FRF 25 to 37 million in 1921-1932 for the sole *Union européenne industrielle et financière* holding, almost doubles if affiliates included. But a split occurred between the two partners at the very end of the 1920s, which spurred the development of a banking department within *Union européenne industrielle et financière*, the nest of future *Banque de l'union européenne* (after WWII), and the takeover of *Banque des pays du Nord*, to use it as an in-house investment bank from 1928 on a European level, like in the case of the issuing of bonds by Schneider and *Compagnie franco-polonaise de chemins de fer* in 1932.

Globally, Pr. Bouvier<sup>25</sup> noticed that, in 1924-1930, the assets of both Paribas and *Banque de l'union parisienne* comprised more and more “correspondant banking” refinancing, which was constituted on one hand of refinancing regional banks, but mainly foreign banks, either affiliates or partners. We shall see later on that investment banks differentiated themselves through the weight of their long-term assets; but differentiation also involved short term lines, reflecting their connections with European banking community, not along a difference of skills with commercial banks (*Société générale* and *Crédit lyonnais* refinancing German banks, for instance), but a difference of size because they were the hub of a nexus of sister banks all over continental Europe.

1919	4.1
1922	5.8
1924	11.2
1925	19.9
1926	16.1
1927	18.7
1928	21.8
1929	16.2
1930	20.1
1931	8.6

### C. Investment banks' European financial engineering

Core investment banking skills around mergers & acquisitions expertise raised from such European developments indeed. Investment banks provided their services to firms joining the Stock Exchange or issuing bonds and shares; *Banque de l'union parisienne* sustained for example *Union européenne industrielle et financière* growth. It also contributed to the

<sup>25</sup> Jean Bouvier, Jacques Rougerie & Patrick Verley, “Système bancaire et inflation en France au XX<sup>e</sup> siècle”, 1913-1976, *Revue internationale d'histoire de la banque*, n°19, 1980, pp. 1-38.

equipment of Greece with big companies (*Société hellénique d'électricité*). Both investment banks went on promoting mortgage credit, a specialty of French bankers abroad; Paribas remained the godfather of *Crédit foncier franco-bulgare*, Banque de l'union parisienne founded *Banque hypothécaire franco-hellénique* (1930), with issuings of bond in Paris. Investment banks lastly contributed to the resiliency of French banking community in supporting *Banque de France's* and Bank of England's achievements when they issued bonds to help re-creating monetary markets all over East Europe – and Paribas was the lead-manager of the French banking pool. Thanks to its partnership with Schneider and *Union européenne industrielle et financière*, *Banque de l'union parisienne* was a co-lead manager of several issuings (Huta Bankowa, Skoda, etc.). On their side, merchant banks were still active, but we miss a comprehensive survey of their interwar developments. Paradoxically, little houses still were pathbreakers in a few areas: Neuflyze led some operations of *Mines & usines de zinc de Silésie* in Poland, with part of the equity and leadmanaging the issue of equity in 1927; and it co-led the increase of capital of *Charbonnages, mines & usines de Sosnowice* in 1930, in both cases because the French State patronised such a move to takeover ex-German assets in Poland. Mirabaud<sup>26</sup> kept its pushing presence in mining, as the strategic stake-holder in Yugoslavian *Mines de Bor*.

Belgium remained a platform of banking business for both big investment banks. Paribas went on developing a sister bank in Brussels<sup>27</sup>, inherited from its co-founders in the 1860s-1870s, which introduced it within equity issuing and credit syndicates. Because of its historical links with *Société générale de Belgique*, *Banque de l'union parisienne* was associated to numerous operations generated by the Belgium pole, either on Anvers (*Banque de l'union anversoise*, *Banque d'Anvers*), in Brussels or in Luxemburg. A few issuing operations occurred to which *Banque de l'union parisienne* was associated, but there, commercial banks were often present as providers of availabilities – for instance for equity of Sofina in April 1929, when a European banking pool was set up, with a French syndicate led by Paribas, with *Banque de l'union parisienne*, *Société générale* and *Comptoir national d'escompte de Paris*, with Dutch banks.

#### D. French investment banks and the US area

Investment banks did not fare better than commercial banks (except *Comptoir national d'escompte de Paris*) about North-American business; *Banque de l'union parisienne* was a late-comer when it took part – with *Société générale de Belgique*, Swiss, German commercial banks and UK (Schröders<sup>28</sup>) and US (Blyth Witter) investment banks – to the creation of the American British & Continental Corporation to draw American funds towards Europe; or when it joined the fray to set up *Union internationale de placements* in Luxemburg in 1931 to acquire US equity – in both cases without large activity, nor when *Banque de l'union parisienne* managed by itself a little activity of proprietary trading through a portfolio of US securities in New York – in common with Paribas, through a financial vehicle, *Société franco-américaine* (1919) or in parallel with Paribas, which got in touch with Kühn Loeb investment bank at the end of the 1920s. Investment banks were not peculiar pathfinders in North America in the interwar period indeed, because they focussed on European business, perhaps because US bankers kept their market for themselves, or because French bankers lacked durable and intimate connections there.

<sup>26</sup> See Isabelle Chancelier, *Messieurs Mirabaud et Cie. D'Aigues-Vives à Paris, via Genève et Milan*, Paris, Éditions familiales, 2001.

<sup>27</sup> Éric Bussière, *La France, la Belgique et l'organisation économique de l'Europe, 1918-1935*, Paris, Comité pour l'histoire économique et financière de la France, 1992.

<sup>28</sup> Richard Robert, *Schroders. Merchant and Bankers*, London, McMillan, 1992.

Only the Schlumberger family – already active in oil geophysics – experienced transatlantic connections through a little bank opened in Paris in 1919, Schlumberger merchant bank<sup>29</sup>, without reaching a noticeable dimension. And of course Lazard frères developed a confederal business model between Paris, Brussels, London and New York, which transformed the family group and its acute managers (Raymond Philippe, etc.) into pathbreakers for currency trading, during WWI and moreover during the 1920s: they provided French local banks with refinancing in foreign currencies – we thus studied the case of a key bank in Cognac<sup>30</sup>, using Lazard for its needs in pounds and dollars –, and the engineering the State loans in the US to rescue the franc are well-known case studies<sup>31</sup>.

## E. Investment banks' internationalised portfolios of skills

Table 2. Investment banks portfolio of skills and European business
FOREX services
Acceptance and documentary credits for commercial exchanges on commodities
Refinancing partner banks (call money; permanent credit lines; supplying pounds and dollars)
Financing treasuries of firms connected to French interests
Financing Schneider group and <i>Union européenne industrielle et financière</i> eastward moves
Issuing equity and bonds for central banks of eastern countries
Promoting French business and interests through supporting alliances, godfathering firms, etc.

Our survey of the deployment of French investment banks abroad confirmed the construction of a broad array of European interventions, either in London and Brussels/Anvers, or more and more in Central and Eastern Europe. They could take profit from these bases to supply cash, refinancing help, permanent credit lines, financial engineering talents.

The issue would be the differentiation between investment banks and commercial banks. In fact, these latter did practice a large array of skills which were key competence of the first ones. For instance, *Crédit lyonnais* used its bridghead in Switzerland<sup>32</sup> to manage finance to wholesale commodities trading, currency trading, and perhaps to collect private banking investment flows to sustain its issuing and brokerage activities. *Société générale* was deeply involved in the turn of the 1930s as it had been in the 1900-1910s in short-term investments in Germany (like UK merchant banks), through credits to German banks. All major commercial banks relied on their London branch or subsidiary to fuel FOREX and money market activities on an international level; and it remains (perhaps?) impossible to measure the balance of power between commercial banks and investment banks on the London City market. Surely, commercial banks would be able to practice the whole range of skills which constituted the core of investment banks' activities abroad; and in a very few cases, they even got footholds here and there (London, Poland for *Crédit industriel & commercial*, Germany for *Société générale*, for instance). But obviously their strategic priority had been given from the end of WWI to the inner market, thirsty of

<sup>29</sup> Christian Grand, *Trois siècles de banque. De Neuflyze, Schlumberger, Mallet, de 1667 à nos jours*, Paris, E/P/A Éditions, 1991.

<sup>30</sup> Hubert Bonin, "Cognac, une place bancaire au coeur d'une économie ouverte à l'international (dans les années 1900-1930)", in Bertrand Blancheton & Hubert Bonin (eds.), *La croissance en économie ouverte (XVIII<sup>e</sup>-XXI<sup>e</sup> siècles). Hommages à Jean-Charles Asselain*, Brussels, Peter Lang, to be published in 2008.

<sup>31</sup> See Bertrand Blancheton, *Le Pape et l'Empereur. La Banque de France, la direction du Trésor et la politique monétaire de la France (1914-1928)*, Paris, Albin Michel, 2001. Raymond Philippe, *Le drame financier de 1924-1928*, Paris, Gallimard-NRF, 1931. Anne Sabouret, *MM. Lazard frères et Cie. Une saga de la fortune*, Paris, Olivier Orban, 1987.

<sup>32</sup> See Youssef Cassis, *Le Crédit lyonnais en Suisse, 1876-2001*, Crédit lyonnais (Suisse), 2001.

investments, modernisation and a new generation of middle-term credits or longer types of drafts – as we studied in our comprehensive book. They thus gave leeway to investment banks to tackle foreign issues, which became one major field of expansion, then contributing to the cementation of an international business culture at investment banks Paris headquarters and of their dense international connections.

Cultural aspects were involved indeed because big commercial banks had little by little lost their mixed profile where self made managers or managers disposing of a European mindset exerted high charges (Ulmann at *Comptoir national d'escompte de Paris*, for example); till WWI even *Société générale* lived embedded within European connections through intimate day to day operations with “financiers-bankers” (Cassel in London, Spitzer, Gunzbourg, etc.). After WWI big commercial banks gave priority to issues of organisation, retail banking, accounting, etc., and they recruited high civil servants as key managers; they reached efficiency, but lost their international mindset and their culture of European connections, conversely with Paribas (around the brilliant personality of Horace Finaly<sup>33</sup>) and even *Banque de l'union parisienne*, which also recruited civil servants but kept contact with informal banking connections through the merchant banks which constituted its networking business circle. And this trend was reinforced because the State relied on Paribas and (as a second trump card) on *Banque de l'union parisienne* to rebuild economic influence in Europe after the loss of Russian assets and alliance and against re-emerging German strength – for instance about Rumanian business.

## 2. Investment banks as emerging colonial powers

The second area where investment banks played a leading role was the French empire. On one hand, commercial banks were not so much active overseas<sup>34</sup>: they were only present in Algeria (an assimilated territory with one million French-European people, constituting an extension of the inner market) with networks of branches (*Société générale*, *Crédit lyonnais* – and also specialised retail banks like *Compagnie algérienne* and *Crédit foncier d'Algérie & de Tunisie*<sup>35</sup>), and took foot in Subsaharan Africa only from the 1940s. The single one to be involved significantly overseas was *Comptoir national d'escompte de Paris*: from the start in the mid-19th century, it refinanced “colonial banks” in the Antilles and then also *Banque de l'Afrique occidentale* in Dakar; and its links with merchant houses from Paris and several industrial and trade provincial markets explained why it had established branches in Tunisia, Egypt, Madagascar and Australia<sup>36</sup>, whilst *Crédit lyonnais* also was active in Egypt<sup>37</sup> – because of cotton trade). In fact, commercial banks respected their collective agreement to leave specialised colonial banks represent

<sup>33</sup> Éric Bussière, *Horace Finaly, banquier, 1871-1945*, Paris, Fayard, 1996.

<sup>34</sup> Hubert Bonin, “L’outre-mer, marché pour la banque commerciale (1876-1985) ?”, in Jacques Marseille (dir.), *Les relations économiques & financières entre la France & la France d'outre-mer*, Paris, Comité pour l'histoire économique & financière de la France, 1998, pp. 437-483.

<sup>35</sup> Hubert Bonin, *Un outre-mer bancaire méditerranéen. Le Crédit foncier d'Algérie & de Tunisie (1880-1997)*, Paris, Publications de la Société française d'histoire d'outre-mer, 2004. Hubert Bonin, “Une banque française maître d'oeuvre d'un outre-mer levantin : le Crédit foncier d'Algérie & de Tunisie, du Maghreb à la Méditerranée orientale (1919-1970)”, *Outre-Mers. Revue d'histoire*, first term 2004, tome 91, n°342-343, pp. 239-272. Hubert Bonin, “Un outre-mer bancaire en Orient méditerranéen : des banques françaises marraines de la Banque de Salonique (de 1907 à la Seconde Guerre mondiale)”, *Revue historique*, CCCV/3, November 2003, pp. 268-302.

<sup>36</sup> Hubert Bonin, “Le Comptoir national d'escompte de Paris, une banque impériale (1848-1940)”, *Revue française d'histoire d'outre-mer*, tome 78, 1991, n°293, pp. 477-497. Yasuo Ganjo, “The *Comptoir d'escompte de Paris* in the Far East in the second half of the 19th century”, *Kinyu Keisai*, n°175, April 1979, pp. 91-133; n°176, June 1979, pp. 97-129 (in Japanese).

<sup>37</sup> Samir Saul, “Les agences du Crédit lyonnais en Égypte : l'insertion d'une banque de dépôts dans une économie d'outre-mer (1875-1956)”, in Bernard Desjardins, Michel Lescure, Roger Nougaret, Alain Plessis & André Straus (eds.), *Le Crédit lyonnais, 1863-1986. Études historiques*, Genève, Droz, 2002, pp. 521-548.



them abroad, either *Banque de l'Afrique occidentale* in Sub-Saharan Africa or *Banque de l'Indochine* in Asia<sup>38</sup>.

But two events broke these gentlemen's agreement and opened doors to a scramble for overseas business<sup>39</sup>. The conquest of Madagascar and its growing perspectives allowed a competition between *Comptoir national d'escompte de Paris*, practicing here retail banking, and Paribas, both struggling to get the concession of the issuing bank, and Paribas winning it in 1925. This was a linchpin for Paribas's new position in the empire: it had set up a genuine team of specialists of overseas business which intended to assert their investment banking power (patronizing emerging firms in plantations, trade, logistics and industry; issuing securities; refinancing central banks, etc.), and two key financial holdings were used in that intent: *Compagnie générale des colonies* and *Compagnie générale du Maroc*. Since 1904, Paribas had been the lead manager of the "Morocco consortium" which distributed shares of banking and issuing operations among participants (commercial banks and investment banks) concerning railways, utilities or else. Paribas built therefore a little "empire" in Morocco<sup>40</sup>, ever described in France as a powerful array of participations, connections, and refinancing opportunities, but we have to remind of the actual scale of the Protectorate in front of China or India... *Banque de l'union parisienne* also became an "overseas" investment banking hub because it accompanied the initiatives of several families of its *Haute Banque* networks, mainly Mirabaud, and also those of the Schneider group (around *Compagnie marocaine* sub-holding<sup>41</sup>). Both Paribas and *Banque de l'union parisienne* tried to godfather wholesale trading houses in Bordeaux at the end of the 1920s, but Paribas had rather retire from a market stricken by the slump, whilst *Banque de l'union parisienne* rescued leading Maurel & Prom firm.

In both cases, the interwar period was only a take-off, halted by the crisis, before resuming overseas activities on a high level after WWII. But it reveals the want to build "little imperial empires" to lead (re)financing and issuing operations, a lead managers, even if afterwards commercial banks joined syndicates to share the contract and the fees. Investment banks were more relevant actors because they could get access to discreet data about pathbreakers overseas (in mining, trading, plantations, etc.), that is in areas where speculative schemers were numerous, and they could redistribute part of the risk among their pools of individual investors. Last, the State often had better rely on investment banks because of their capital of experience as lead managers of syndicates and because itself still lacked of the financial and economic workforce and organisation and was compelled to "outsource" initiatives – conversely with the after WWII<sup>42</sup>. French investment banks contributed thus to the acceleration of the process of "modernising" the empire

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<sup>38</sup> Marc Meuleau, *Des pionniers en Extrême-Orient. La Banque de l'Indochine, 1875-1975*, Paris, Fayard, 1990. Yasuo Gonjo, *The history of the Banque de l'Indochine (1875-1939): French Imperialism in the Far East*, Tokyo University Press, 1985, thesis in Japanese, translated into French and published in 1993 by Comité pour l'histoire économique et financière de la France, Paris. Hubert Bonin, "The French banks in the Pacific area (1860-1945)", in Olive Checkland, Shizuya Nishimura & Norio Tamaki (eds.), *Pacific Banking (1859-1959). East Meets West*, London, MacMillan; New York, St. Martin's Press, 1994, pp. 61-74.

<sup>39</sup> Hubert Bonin, "Les réseaux bancaires parisiens et l'empire : comment mesurer la capacité d'influence des "banquiers impériaux" ?", in Hubert Bonin, Jean-François Klein & Catherine Hodeir (eds.), *L'esprit économique impérial (1830-1970). Groupes de pression & réseaux du patronat colonial en France & dans l'empire*, Paris, Publications de la SFHOM, 2008, pp. 447-472. Hubert Bonin, "Les banquiers", in Jean-Pierre Rioux (ed.), *Dictionnaire de la France coloniale*, Paris, Flammarion, 2007, pp. 563-568.

<sup>40</sup> Pierre Guillen, "Les investissements français au Maroc de 1912 à 1939", in Maurice Lévy-Leboyer (ed.), *La position internationale de la France*, Paris, EHESS, 1977, pp. 399-412. Jean-Claude Allain, *Les emprunts d'État marocains avant 1939*, Paris, Éditions du CNRS, 1986.

<sup>41</sup> Pierre Guillen, *Les milieux d'affaires français et le Maroc à l'aube du xx<sup>e</sup> siècle. La fondation de la Compagnie marocaine*, Paris, PUF, 1963.

<sup>42</sup> Jean Bouvier, René Girault & Jacques Thobie, *L'impérialisme à la française, 1914-1960*, Paris, La Découverte, 1986.

(what was called in the interwar period: “*mise en valeur*”) and to reduce the high costs<sup>43</sup> of functioning of a still de-organised overseas economy, filled with gaps and backwardness.

Within their staff, an “imperial business culture” and specialised teams emerged in the interwar period: we could thus identify a little team at Paribas around André Laurent-Atthalin, the godfather of imperial policies, as the COO of *Compagnie générale des colonies*, *Compagnie générale du Maroc*, vice-president of *Banque d’État du Maroc* and *Banque de Madagascar*, and the representative of the bank at the colonial lobby, *Union coloniale*. At Banque de l’union parisienne the key personality for overseas investment banks was Pierre Mirabaud, from Mirabaud *maison de Haute Banque*, and a key member of the Board: he was the influential go-between for mining companies in North-Africa (*Phosphates de Gafsa*, Mokta, Penarroya), for *Compagnie algérienne* retail bank, for trading houses (Société du Haut-Ogooué, Peyrissac, etc.) and else, and he could be perceived as one of the “rainmakers” for African schemes with several “families” involved on this continent (Nervo, Lemaigen, Talabot, Durand-Réville, Gradis) for decades (and till after WWII).

Table 3. Investment banks portfolio of skills and imperial business
Patronising emerging firms in plantations, trade, logistics and industry
Issuing securities for the biggest of these firms
Refinancing central banks ( <i>Banque de Madagascar</i> , <i>Banque d’État du Maroc</i> )
Refinancing the State Treasury overseas
Refinancing wholesale trading and mining houses
Animating federative groups with holdings overseas

Informal connections spurred by personal links and skills were thus gathering momentum within investment banks, which differentiated them from commercial banks, where only retail banking predominated; only specialised institutions dedicated to overseas activities managed sometimes similar activities, either refinancing firms (central bank functions), or refinancing firms (*Crédit foncier d’Algérie & de Tunisie*, *Banque de l’Indochine* – and the latter even went so far from the 1930s as to get equity of its clients, when it transformed bad debts into participations, thus constituting the nexus of what would become an investment bank after WWII).

## II. Issues of differentiation in mainland France

Whilst bankers tried and succeeded in rebuilding a few international and overseas flows of business, the major issue was the reconstruction of the economic power of France, which had been shaken by destructions in the north-eastern parts exposed to WWI fighting and which was challenged altogether by the demands for innovation and investment exerted by the second industrial revolution and by the rapid resumption of German growth, industry, *Konzerne* and might. The State commenced to rely more and more on investment banks to open up new ways of modernisation and to create a community of “modern minds” able to spur initiatives among firms<sup>44</sup>. We intend therefore to gauge the actual role played by investment banks in the process of the diffusion of the second industrial revolution in the interwar period and how much a process of differentiation with commercial banks did take form – even a financial history of innovation is still missing<sup>45</sup>.

<sup>43</sup> See Douglass C. North, “Institutions, transactions costs, and the rise of merchant empires”, in J. Tracy (dir.), *The Political Economy of Merchant Empires*, Cambridge, 1991.

<sup>44</sup> See Richard Kuisel, *Le capitalisme et l’État en France. Modernisation et dirigisme au XX<sup>e</sup> siècle*, Paris, Gallimard, 1984.

<sup>45</sup> About this issue, see: Hubert Bonin, “ ‘Blue angels’, ‘Venture Capital’, and ‘Whales’: Networks financing the takeoff of the Second Industrial Revolution in France (1890s-1920s)”, *Business & Economic History On-*

### 3. The issue of industrial and corporate banking: power and skills

The history of French industry in the interwar period raised stiff arguments, among actors of the time (in Parliament, etc.) and among historians: did banks succeed in facing the needs of companies to finance growth, the adaptation to the requisites of the second industrial revolution, and “industrial banking”<sup>46</sup>? Were there key leverage to accelerate the rhythm of companies’ growth and did they exert an influential power on firms’ management to stir such momentum?

#### A. The limits of mixed banking and commercial banking

On one side, the thirst for a new “economic and banking model” was expressed by the fashion of “mixed banking” and rush to such a model, either in Paris, by big bank *Banque nationale de crédit*<sup>47</sup>, or mainly in the provincial capitals, where local and regional banks tried to forge what could appear retrospectively as (proto?) “industrial districts”<sup>48</sup>, because they provided their industrial clients with middle-term drafts, ample and durable seasonal credits, and with financial services (issuing of securities, to be brokered among local bourgeoisies). But this model did not resist so much to the 1930s crisis, and a deadlock was somewhat met, with the collapse of *Banque nationale de crédit* and the fall or intense difficulties of a few “starring” regional commercial banks (*Société nancéienne*, *Banque générale du Nord*, etc. – to be rescued by more resistant competitors) as a beacon of this demise.

On another side, commercial banks were accused of “benign neglect”, of focusing on short term operations (discounting bills, short term drafts and seasonal credits, documentary credits, FOREX operations, with an emerging activity of acceptance credits) and of neglecting middle-term needs and lacking of financial expertise. Historians have well drawn the basic “liquidity-mindset” of French commercial banks, because of rules forged by *Crédit lyonnais* and its chairman Henri Germain since the 1870s, of drastic practices of liquidity imposed within the *Crédit industriel & commercial* itself and its provincial federative group, and because of the culture of liquidity inherited by *Comptoir national d’escompte de Paris* from the krach of its predecessor in 1889. The very crisis endured by *Société générale* first in 1905-1907 (because of over-commitments in a few firms which did not resist the recession) and moreover in 1913-1914 (with a crisis of confidence due to its supposed commitments in central Europa), marked by the dismissal of its chairman and CEO Louis Dorizon, by the sudden rescue by *Banque de France* and a banking syndicate, and by the support by Paribas as a partner for financial operations and as a shareholder (till 1920-1921), all explained that rules of caution predominated in the afterwar period.

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*Line*, volume 2, 2004, pp. 1-49 [<http://www.thebhc.org/BEH/04/bonin.pdf>].

<sup>46</sup> See Michael Collins, *Banks and Industrial Finance in Britain, 1800-1939*, Cambridge, MA, Cambridge University Press, 1996.

<sup>47</sup> See H. Bonin, *La Banque nationale de crédit*, *op. cit.*

<sup>48</sup> Michel Lescure, “Entre ville et campagne, l’organisation bancaire des districts industriels : l’exemple du Choletais, 1900-1950”, in Jean-François Eck & Michel Lescure (eds.), *Villes et districts industriels en Europe (XVII<sup>e</sup>-XX<sup>e</sup> siècles)*, Tours, Presses de l’Université de Tours, 2002. Hubert Bonin, “Les banquiers grenoblois des années 1890-1940 : un modèle spécifique ?”, in Hervé Joly (*et alii*) (eds.), *Des barrages, des usines et des hommes. L’industrialisation des Alpes du Nord entre ressources locales et apports extérieurs. Études offertes au professeur Henri Morsel*, Grenoble, Presses universitaires de Grenoble, 2002, pp. 185-209. Christophe Lastécouères, “L’émergence des banques à l’allemande en Aquitaine dans les années 1930 : un anachronisme ?”, in Michel Lescure & Alain Plessis (eds.), *Les banques locales et régionales en Europe au XX<sup>e</sup> siècle*, sous presse. Christophe Lastécouères, *Les feux de la banque : oligarchie et pouvoir financier dans le Sud-Ouest, 1848-1941*, Paris, CTHS, 2006. Jean-Pierre Allinne, *Banque Pouyanne. Histoires d’entrepreneurs, 1903-2003*, Orthez, Éditions Gascogne, 2003.

Last, a few banking crisis linked with recessions or monetary crisis of distrust (1920-1921, 1923-1926, 1927) and the fall of a few regional banks reinforced the trend towards liquidity – and *Crédit industriel & commercial* intensified for instance its grip over the dozen of big local banks of its federative group, which were key actors on provincial market places. Banque de France’s practices were also at stake, as it privileged the rediscount of bills and demanded the historical “three signatures” on bills, which hindered the emergence of a middle-term market in France.

But historians insisted on the facts that commercial banks actually were not risk averse and even were committed to risk-taking, either in favour of middle-sized companies<sup>49</sup>, or in favour of big firms. Ourself have demonstrated the high level of overdrafts, and of the whole range of durable credits (from six to two years) in their amounts of credit assets<sup>50</sup>. We have even picked up several case studies where the director of a regional branch (in Lorraine or Auvergne, for instance) acted as a littel ivnvestment banker, scrutinizing the balance sheet of the customer, advising him to how to extend his permanent funds, and orienting the firm towards a loan or even a quotation on the Stock Exchange, because numerous middle-sized companies altogether faced a rapid growth and cash flows, and a lack of current funds because of a meagre equity. We almost presume that commercial banks could have set up an investment banking department with senior advisers, would they assume such risk-taking. But they did not evolve likewise indeed! They refused to jump into “mixed banking”. Despite such a propension to liquidity, their very might resulted from their large resources:

Table 4. An overall survey of the respective might of banks in 1928 (FRF millions)

	Total credits	Deposits	
Investment banks			
Paribas	2,734	3,564	
<i>Banque de l'union parisienne</i>	510	1,111	
<i>Crédit mobilier français</i>	129		
<i>Banque des pays du Nord</i>	194		
Commercial banks			
<i>Crédit lyonnais</i>	12,889	12,204	
<i>Société générale (with Sogenal)</i>	10,415	12,647	
<i>Comptoir national d'escompte de Paris</i>	7,346	9,257	
<i>Crédit industriel &amp; commercial</i>	3,921 (CIC group)	1,315 (CIC only)	4,411 (CIC group)
<i>Banque nationale de crédit</i>	3,713	4,631	
<i>Crédit commercial de France</i>	2,171	2,476	

## B. The issue of trust among new big firms

Beyond being faithfull to liquidity requisites, one key argument could have been the lack of accountability among firms, still reluctant to establish reliable and transparent balance sheets, at times when accountancy did not follow fixed rules and when the State administration gave leeway to bad practices in the name of liberalism. If we consider closer banks having practiced mixed banking, we discover that most of them opened doors to easier credits and longer commitments only to firms belonging to an intimate circle of companies either controlled through shareholding or entertaining family or personal connections with the Board and the management of the bank. That was the case at *Banque nationale de crédit* (in favour of two dozens affiliates of the Vincent group, under the name of an industrialist who became chairman of the bank in 1928-1931; or inf avour of a few

<sup>49</sup> Michel Lescure, *PME et croissance économique. L'expérience française des années 1920*, Paris, Économica, 1996. Michel Lescure, “Le rôle des intermédiaires financiers dans le financement des entreprises industrielles en France dans l'entre-deux-guerres : une approche par les bilans d'entreprises”, in Philippe Marguerat, Laurent Tissot & Yves Froidevaux (eds.), *Banques et entreprises industrielles en Europe de l'Ouest, XIX<sup>e</sup>-XX<sup>e</sup> siècles*, Droz, Geneva, 2000, pp. 91-107.

<sup>50</sup> Hubert Bonin, *Les banques françaises dans l'entre-deux-guerres*, Tome II : *Les banques & les entreprises en France dans l'entre-deux-guerres (1919-1935)*, Paris, PLAGÉ, 2000.

firms like Boussac textile group). That was also the case at Banque Oustric, which opened the of credit excessively to the firms which financier André Oustric controlled<sup>51</sup> (in shoe-making, etc.), and at *Banque générale du Nord* in favour of a few dozens textile customers; or at the banks in Grenoble (Center-East of France, in Dauphiné), which entertained a deep embeddedness among family industrialists of the area, themselves members of their Boards. We might consider that the balance of power was blurred in favour of the clients and that the bankers lost their grip over them.

This explains that investment banks had to invent new portfolios of skills, to be involved durably and financially in the growth of a customer without being swallowed by his tricky practices. The prosperity of investment banking required in fact trust and transparency; conversely, a huge majority of French firms evolving from middle-size to (Chandlerian?) big business did not accept the consequences which it should secrete: a middle-term partnership opening doors to a renewal of the practices of merchant banks, based on in-house banking. Most chairmen of family or personal big firms<sup>52</sup> relucted to a faithful “open-doors policy”: they wished to co-operate with senior advisors and investors; but they were afraid of losing thorough control over their firm. The case of Citroën gives a clue of such attitude: he called for banking partnership, with commercial banks first, then, because they fled from such an obscure accounting process, with investment bank Banque de l’union parisienne, its companion in 1923-1926, then with Lazard, which even conquered high positions in the management; but as soon as Citroën recovered a sane financial situation thanks to the restructuring of accounts and the issuings of equity achieved by Lazard, Citroën halted such a co-operation. He dismissed investment bankers twice, refusing to join what characterizes an investment banking, long term connections and trust<sup>53</sup>.

The very reality that Citroën had rather call for Lazard’s help instead of big banks – Lazard being at that times a junior bank on the Paris market – confirms our idea that big family business were more prone to open doors to little banks. This could explain the renewal of merchant bank Mirabaud, which, led in this area by a key pathbreaker, engineer Marcel Champin<sup>54</sup>, became the senior partner of a few companies symbolising the second industrial revolution, either in steel pipes (Louvroil & Recquignies and Montbard-Aulnoye, firms merging into Vallourec<sup>55</sup>), or in car manufacturing (Renault<sup>56</sup>), supplying them with financial advise and engineering when they faced crisis of current permanent funds because of fast growing turnovers and broad credits to clients. Such a solution would have been relevant, but the small dimension of family (Mirabaud) or partnership (Lazard)

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<sup>51</sup> Hubert Bonin, “Oustric, un financier prédateur ? (1914-1930)”, *Revue historique*, October 1996, CCXCV/2, pp. 429-448.

<sup>52</sup> See Maurice Lévy-Leboyer (ed.), *Le patronat de la seconde industrialisation*, Paris, Cahiers du Mouvement social, 1979. C.J. Schmitz, *The Growth of Big Business in the United States and Western Europe, 1850-1939*, Cambridge, Cambridge University Press, 1993. A. D. Chandler, *Scale and Scope. The Dynamics of Industrial Capitalism*, Cambridge, The Belknap Press of Harvard University Press, 1990.

<sup>53</sup> Hubert Bonin, *La Banque de l’union parisienne, op.cit.*, pp. 201-208. Hubert Bonin, “Les banques face au cas Citroën (1919-1930). Essai d’appréciation de la puissance bancaire”, *Revue d’histoire moderne & contemporaine*, January-March 1985, pp. 75-98. Hubert Bonin, “Les banques ont-elles sauvé Citroën (1933-1935) ? Réflexion sur la marge d’initiative bancaire”, *Revue Histoire, économie, société*, 3, 1984, pp. 453-472. Sylvie Schweitzer, *André Citroën, 1878-1936: le risque et le défi*, Paris, Fayard, 1992. Jean-Louis Loubet, *Citroën, Peugeot, Renault. Histoire de stratégies d’entreprises*, Boulogne, ETAI, 1999.

<sup>54</sup> Alain Plessis, “Une maison de la Haute Banque parisienne : les Mirabaud et le financement des entreprises de la fin du XIX<sup>e</sup> siècle à la Seconde Guerre mondiale”, in Philippe Marguerat, Laurent Tissot & Yves Froidevaux (eds.), *Banques et entreprises industrielles en Europe de l’Ouest, XIX<sup>e</sup>-XX<sup>e</sup> siècles*, Geneva, Droz, 2000, pp. 239-250, here pp. 246-247.

<sup>55</sup> Catherine Omnès, *De l’atelier au groupe industriel : Vallourec, 1882-1939*, Paris, Éditions de la Maison des sciences de l’homme-Presses universitaires de Lille, 1980.

<sup>56</sup> Patrick Fridenson, *Histoire des usines Renault, 1898-1939*, Paris, Seuil, 1972 (second edition, 1998).

merchant banks did not allow them to extend their scope beyond godfathering about half a dozen companies – and even Rothschild focused its main activities as an investment banks on its own group (*Compagnie du Nord* railways, mining, etc.).

#### 4. Investment banking as the leverage to the second industrial revolution

Such a deadlock could not but open way to a new role of investment banks as leverage to the second industrial revolution. Our hypothesis is that, after having been more oriented towards foreign markets at the *Belle Époque* (from London to Spain, Italy, the Balkanic area, or Latin America)<sup>57</sup>, investment banks constituted in the interwar period a portfolio of skills (financial engineering, mergers & acquisitions, proprietary assets management) oriented towards solutions and services to French companies, which anticipated on their future developments from the 1950s. At Paribas, behind CEO Finaly (1919-1937), playing a go-between role within French public and private Establishment, Louis Wibratte (an engineer from *École des ponts & chaussées* and an executive officer in 1920-1944, then chairman in 1944-1949) became the key path-breaker in investment banking<sup>58</sup>; their team constituted a genuine capital of competence in French industrial and utilities affairs, with even a willing strategy to take part to the modernisation and rationalisation of the economy<sup>59</sup>, along with a global mindset of regaining a competitive edge against Britain or Germany, where processes of concentration gathered momentum in the mid-1920s – and this team was also active in a few Franco-Belgian partnerships<sup>60</sup>. Such team-building of engineering “brain” was “modern” (or “pioneering”) in investment banking because it became commonplace by investment banks after WWII, all equipped with large teams of senior and junior advisers – and the Paribas model itself was praised (or diabolised by anticapitalists) in the 1970s. And we shall rally the (anyway cautious) assertion of Éric Bussière: “*Les années 1920 furent marquées par la montée en puissance du département bancaire de Paribas, évolution qui accompagne celle des relations désormais plus suivies avec un certain nombre de partenaires industriels. Il est donc possible d’affirmer que la guerre marqua une inflexion assez sensible de la relation de la banque d’affaires avec les entreprises industrielles et que, dans une certaine mesure, cette relation se rapproche de celle habituellement décrite pour le modèle de banque mixte.*”<sup>61</sup>

Its challenger *Banque de l’union parisienne* – which could also rely on its partners and stakeholders, the merchant banks Mirabaud, Mallet, Neuflyze, or else – set up a similar team too. We identified<sup>62</sup> a club of financiers-bankers who tacked “investment banking” skills as a complement to overall corporate banking – whilst other teams managed commercial banking, Stock Exchange activities, overseas operations, etc. – and since 1923 all of the top executives were getting part of the yearly profits of the bank, like in a partnership house. Key leaders Paul Bavière, CEO in 1922-1928, and Olivier Thomas, executive manager in 1924 and CEO in 1928, set up a team of managers trained within the bank in the 1920s and mixing art of connections and art of finance, from the financial studies direction and senior engineers (*ingénieurs conseils*) to “project teams” federating

<sup>57</sup> See René Girault, “Pour un portrait nouveau de l’homme d’affaires français vers 1914”, reedited in René Girault, *Être historien des relations internationales*, Paris, Publications de la Sorbonne, 1998

<sup>58</sup> See Éric Bussière, Paribas, *op. cit.*, pp. 99-100.

<sup>59</sup> Éric Bussière, “Entre la banque mixte et la banque d’affaires: la Banque de Paris et des Pays-Bas et sa stratégie industrielle”, *Entreprise et histoire*, n°2, 1992, pp. xx-xx. Éric Bussière, “Paribas et les entreprises industrielles des années 1900 aux années 1960”, in Philippe Marguerat, Laurent Tissot & Yves Froidevaux (eds.), *Banques et entreprises industrielles en Europe de l’Ouest, XIX<sup>e</sup>-XX<sup>e</sup> siècles*, Droz, Geneva, 2000, pp. 223-237.

<sup>60</sup> See Éric Bussière, *La France, la Belgique et l’organisation économique de l’Europe, 1918-1935*, Comité pour l’histoire économique et financière de la France, Paris, 1992.

<sup>61</sup> Éric Bussière, “Paribas et les entreprises industrielles”, *op.cit.*, p. 226.

<sup>62</sup> Hubert Bonin, *La Banque de l’union parisienne*, *op.cit.*, pp. 91-101.

knowledge about commercial law, finance, Stock Exchange, industrial schemes, etc. – with intimate links with the direction in charge with Stock Exchange activities (brokerage, trading on the secondary market, supervision of proprietary trading, etc.). Other investment banks showed far less stuff in such engineering area, because they picked up only mere financiers and well-off members of the Establishment and lacked engineering capability, which could explain that they trailed far behind both leaders, like *Crédit mobilier français*, Oustric, and they did not resist the 1930s crisis – and Rothschild mobilised its engineering skills in favour of mining and railway, without opening new doors, which explained why it lost momentum in the interwar period, even if we lack a comprehensive history of the House for the 20th century<sup>63</sup>.

### A. Investment banking and mergers & acquisitions?

Despite the limits precised there above about trust, confidence and even “fellow traveller partnership” could take foot and thus fuel engineering and advise processes which could be perceived as the very ancestor of the talent in “mergers & acquisitions”. The interwar period might be therefore the ground for the take off of such a M&A activity. Pr. Bussière analysed how much Paribas was involved of the (slow, because of cores of reluctant individualist managers) process of merging companies in the steel and mining industry (around *Forges et aciéries du Nord & de l’Est*), in chemicals (Kuhlmann and *Matières colorantes & produits chimiques*, 1923) – whilst Mirabaud patronized the amalgamation move towards Vallourec (steel pipes) throughout the 1920s, *Banque de l’union parisienne* accompanied Schneider into extending its grip in several shipyards in the 1910s-1920s, and joined Paribas and financiers to insert *Compagnie parisienne de distribution d’électricité*’s industrial assets within the hold of *Union d’électricité* which federated in 1930 a large array of power plants in the Paris area. Sure, commercial bank *Société générale* also helped chemicals firms *Usines du Rhône* and Poulenc in merging into Rhône-Poulenc in 1928; but commercial banks generally were mere spectators and facilitators to such operations, because investment bankers could organise the listing of the new big firms, foster faithfulness and confidence among personal and institutional investors, and manage more efficiently the syndicates on the secondary market which sustained the value of equity. Anyway, such a range of skills in M&A did not get many opportunities to mature in the interwar period because firms organize by themselves

### B. Investment banks and start-up firms: towards venture capital?

Éric Bussière<sup>64</sup> retraced how far Paribas went to support “start-up” technologies, to accompany the financial growth of junior firms, to help them reach the Stock Exchange: beyond its advising ability, it supplied them with its capital of trust on the Paris market place. It sustained thus electrotechnical companies developing activities like electric engineering (Thomson), telecommunications (CSF<sup>65</sup>) and moreover the utilities which led a move to amalgamation and rationalisation in the Paris area (*Union de l’électricité*, *Société*

<sup>63</sup> Bouvier concentrated mostly on the 19th century and on the last years: Jean Bouvier, *Les Rothschild*, Paris, Fayard, 1967; second edition, Brussels, Complexe, 1985.

<sup>64</sup> Éric Bussière, “Paribas and the rationalization of the French electricity industry, 1900-1930”, in Youssef Cassis, François Crouzet & Terry Gourvish (eds.), *Management and Business in Britain and France. The Age of the Corporate Economy*, Oxford, Clarendon Press, 1995, pp. 204-213. Éric Bussière, “Paribas et le financement des affaires d’électricité dans les années 1920 : entre stratégie bancaire et stratégie de groupe industriel” », in Dominique Barjot, Henri Morsel & Sophie Coeuré (eds.), *Stratégies, gestion, management. Les compagnies électriques et leurs patrons, 1895-1945*, Paris, Association pour l’histoire de l’électricité en France (Électra) & Publications de la Fondation Électricité de France, 2001, pp. 153-162.

<sup>65</sup> Lydiane Gueit, “Un exemple de partenariat banque/industrie : Paribas et la CSF, 1918-1968”, *Histoire, économie, société*, 2001, 1, pp. 87-104. CSF (*Compagnie du télégraphe sans fil*) was at the heart of a nexus of companies dedicated to telecommunications to emit or transfer data.

*lyonnaise des eaux & de l'éclairage*, both impelled by industrialist and financier Ernest Mercier<sup>66</sup> and a team of brilliant engineers like Albert Petsche). Even if day to day reconstitution might be delicate to follow, the investment bankers' skills could have been: advise about the feasibility of financial mergers, affiliations; the assessment of the (present and moreover future) value of utilities concessions (yearly returns and profit margins, amortization of capital expenditure, value of assets to give back at the end of the concession, etc.) to serve as counterparts to securities issuings; tracks to get relevant introductions into the State apparatus in times when ministers and members of Parliament were still lacking knowledge of the potentialities offered by big business to the equipment of the country because they were more oriented towards local middle-sized companies.

Its competitor *Banque de l'union parisienne* proved its parallel fighting spirit as the companion of emerging firms, in public works (Campenon-Bernard, a key specialist of new prestressed concrete (a beacon of the second industrial revolution for big projects<sup>67</sup>), in waste management (SITA in Paris), several undertakings of Schneider in steel manufacturing and shipyards, and, with Paribas, it was also involved in some electrical utilities reorganisations and in a few half public, half private property developers in Paris (*Régie immobilière de la Ville de Paris*, etc.).

Both investment banks were rainmakers in the emergence of big projects in energy, requiring huge permanent funds to set up the undertakings (dams, grids; oil fields, pipelines, tankers, refineries). They were first competitors to godfather parallel oil projects in France, Paribas supporting Esso Standard France and undertakings in Central Europe<sup>68</sup>, and *Banque de l'union parisienne* patronising Petrofina France (a subsidiary of Petrofina Belgian group). Then since October 1923, they were associated with the whole oil French community to serve a "patriotic" project of building a big oil company<sup>69</sup>, *Compagnie française des pétroles* (with also *Compagnie française de raffinage* and *Compagnie navale des pétroles*) in the wake of the quarter of the equity of the Irakian oil fields gained by France after WWI. Both supplied funds and moreover financial engineering to draw industrial and institutional investors, then to issue and list its shares and bonds on the Stock Exchange and to manage their market in order to keep them stable, pending the arriving of oil and of further returns from the mid-1930s. It was a stiff challenge because the amount of money to be mobilised went far over previous projects at one shot: about FRF 625 million in 1930-1933 in capital and bonds, another estimate reached about 590 million for the 1933-1934 years, at the apex of the investments – both for the sole French side. We could compare such a project – about twice the expenses for the Suez canal<sup>70</sup> – and the British developments: those latter started at the turn of the 20th century and

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<sup>66</sup> See Dominique Barjot, Henri Morsel & Sophie Coeuré, *Les compagnies électriques et leurs patrons. Stratégies, gestion, management, 1895-1945*, Paris, Fondation Électricité de France, 2001.

<sup>67</sup> See H. Bonin, *La Banque de l'union parisienne*, *op. cit.*, pp. 187-189. Dominique Barjot, "La grande entreprise française de travaux publics et son financement bancaire du début des années 1880 au début des années 1870", in Philippe Marguerat, Laurent Tissot & Yves Froidevaux (eds.), *Banques et entreprises industrielles en Europe de l'Ouest, XIX<sup>e</sup>-XX<sup>e</sup> siècles*, Droz, Geneva, 2000, pp. 111-135, here pp. 130-131.

<sup>68</sup> Philippe Marguerat, *Banque et investissement industriel. Paribas, le pétrole roumain et la politique française, 1919-1939*, Geneva, Droz, 1987.

<sup>69</sup> See André Nouschi, *La France et le pétrole*, Paris, Picard, 2002. André Nouschi, "L'État français et les pétroliers anglo-saxons : la naissance de la Compagnie française des pétroles, 1923-1924", *Relations internationales*, 1976, n°7, pp. 241-259. Éric Bussière, "La France et les affaires pétrolières au lendemain de la Première Guerre mondiale. La politique des groupes financiers à travers celle de la Banque de l'union parisienne", *Histoire, Économie, Société*, n°2, 1982, pp. 49-64. Éric Bussière, "La Banque de l'union parisienne et l'existence d'un courant national dans les milieux pétroliers français dans l'entre-deux-guerres", *Relations internationales*, n°43, 1985, pp. 305-322. H. Bonin, *La Banque de l'union parisienne*, *op. cit.*, pp. 180-186. François Roche, *TotalFinaElf : une major française*, Paris, Cherche Midi, 2003.

<sup>70</sup> Hubert Bonin, *History of the Suez Canal Company, 1858-2008. Between Demonizing and Model*, Geneva, Droz, to be published in 2009.



benefitted therefore from investments achieved on several decades<sup>71</sup>, either in Persia, or in the Dutch Indies (and then elsewhere in the 1930s), conversely with the French project, which had to be completed within a sole decade. Such a financial set-up could be interpreted as a linchpin for the future “structured project financing” of after WWII.

The second beacon of such a trend were two projects in energy. The first one took shape in the 1920s to equip the Paris area with thermal power plants (Vitry, Gennevilliers) and a powerful grid to supply railways companies and distributors of electricity: from 1919 *Union d'électricité* built itself into a big corporation, all the more because it became in 1929 a group supervising distribution (*Compagnie parisienne de distribution d'électricité*) and power plants in the Central Mountains (*Union hydroélectrique*). Such a development required industrial investments for about FRF 700 million (1930) and the collection of FRF 275 million in capital and 290 million in bonds (1930)<sup>72</sup>. Paribas and *Banque de l'union parisienne* were key financial engineers of the construction of the group – even if commercial banks (*Comptoir national d'escompte de Paris*, *Crédit commercial de France*, *Crédit lyonnais* or *Société générale*) supplemented them to supply thick lines of credit and to co-lead the successive brokerage syndicates [see later on]; and even if *Crédit lyonnais* could challenge Paribas as the lead-manager for the issue of bonds in August 1930.

The second project involved a dam in the Central Mountains, for which was created the firm *Forces motrices de la Truyère* (to build a hydroelectrical power plant). For the period, it was a genuine giant project, which the financial market was to assume – whereas after WWII big dams were built by State-owned *Électricité de France* and in Italy mainly under the responsibility of regional public utilities or by State-owned ENEL. We could pretend that it was the first major ancestor of what is called today a “BOT” (*Build, Operate, Transfer*) undertaking: financiers and bankers, public works firms, and electrical engineering ones being all associated since 1927-1928 (after a first attempt in 1911-1916) in the equity and the process to deliver a dam and its power plant to the utility. Anyway, investment banks were key financial and banking engineers of the project, before subscribing part of the capital and above all brokering shares and bonds with a long term maturity. *Banque de l'union parisienne* was the lead manager of the project between 1927 and 1931, organising the syndicate with a few other financial and industrial firms, the issuing of equity (FRF 67,5 million in 1928, a first quarter of the nominal capital of 270 million – borne by the banks for four years till the brokerage later on) and co-organising with commercial bank *Comptoir national d'escompte de Paris* – because of its role of house-bank for several electricity and public works firms involved in the project – bonds (FRF 140 million in 1932), that is a potential amount of 410 million, symbolising “big business” of the second industrial revolution – which was far bigger than the mere FRF 60 million for the capital of *Mines de Bor*, the Mirabaud affiliate.

The financial “eldorados” of Latin America or Russia were now onwards to be found in France itself, and investment banks contributed to educate the investors, the market, to huge amounts of capital with long term maturity, no more about railways or ports, but about utilities, large manufactures (car, steel, pipes, etc.), following the tide of the second industrial revolution towards big plants, big capital, big business. In such a way, they were pathbreaking go-between between the money market and growth. Investment banks supplied huge day to day amounts of treasury to the oil and power plant projects during

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<sup>71</sup> R. W. Ferrier, *The History of the British Petroleum Company*, volume 1: *The Developing Years, 1901-1932*, Cambridge, Cambridge University Press, 1982. James Bamberg, *The History of the British Petroleum Company*, volume II: *The Anglo-Iranian Years, 1828-1954*, Cambridge, Cambridge University Press, 1994. Jan Luiten van Zanden, Joost Jonker, Stephen Howarth & Keetie Sluyterman, *A History of Royal Dutch Shell*, Oxford, Oxford University Press/Boom Uitgeverij, 2007.

<sup>72</sup> Flyer for the issuing of *Union d'électricité* bonds in August 1930, historical archives of *Société générale*.

the process of development; they guaranteed the securities issued; they subscribed to a large part of equity to foster confidence and to bet on further profits on the Stock Exchange. Sure, commercial banks also were involved in the process, even in the capital of *Compagnie française des pétroles*, but their weight was far less important. Globally, the financial portfolio of oil values held by Paribas was estimated at FRF 100 million<sup>73</sup> and that of *Banque de l'union parisienne* at 45 million, one-fifth of its total financial participations<sup>74</sup> in 1933.

Investment banks	
Paribas and <i>Banque impériale ottomane</i>	10,656,500
<i>Crédit mobilier français</i>	6,448,500
<i>Banque de l'union parisienne</i> and <i>Compagnie algérienne</i>	6,371,000
Mixed banking type banks	
<i>Banque nationale de crédit</i> and its affiliate <i>Comptoir d'escompte de Mulhouse</i>	5,749,000
<i>Crédit commercial de France</i>	3,234,500
Commercial banks	
<i>Crédit lyonnais</i>	2,045,000
<i>Société générale</i> and its affiliate Sogenal	2,534,500
<i>Comptoir national d'escompte de Paris</i>	1,993,000
<i>Crédit foncier colonial &amp; de banque</i>	1,424,000

As soon as the share was listed in 1930, investment banks managed to try and broker equity little by little when investors were more and more convinced of the feasibility and the profitability of the project – on the long term, throughout a decade when the Stock Exchange was ailing because of the slump. They animated the syndicate which introduced the share on the Stock Exchange, brought back shares to support the value against drifting downwards after investors started selling part of their assets, etc. – which constituted a classical portfolio of skills, but which was used on a far larger scale than usually. In several cases, a few commercial banks were associated to the projects, but generally as second-tier lead managers, and rarely were they introduced within the nexus of “rainmakers” being at the core of the conception of projects. Commercial banks admitted to such closed-shop clubs were either those practicing mixed banking, or rather those which were the house-bank of firms (servicing their bond-debt, supplying permanent overdrafts) and which thus demanded a bit of high-valued fees linked with investment banking operations – and that was the case of *Comptoir national d'escompte de Paris* for the *Truyère* project, which succeeded in becoming the lead manager for the bond issue (with *Banque de l'union parisienne* on second) whilst *Banque de l'union parisienne* kept its leadership for the equity issue.

Beyond those investment banking skills, both big investment banks and their smaller followers (*Crédit mobilier français*, Rothschild) cleared the way to what should become a key activity after WWII, proprietary investing. They built proto-“financial groups”, that is a “financial holding” activity, with a few affiliates or portfolios managing blocks of equity of partner companies, either sub-holdings, or corporations belonging henceforth to circles of connections from their statute of “start-up” to their maturation (listing on the Stock Exchange, opening large plants, etc.). The 19th century “Rothschild model” outlined and maintained (but no so far developed because of a lack of permanent family funds in comparison with the needs of the firms of the second industrial revolution) by the French Rothschild house (in railways and mining) was imitated and broadened considerably by Paribas and *Banque de l'union parisienne*, perhaps not within a strategy fixed in advance, but as random consequences of the succession of case studies which fuelled opportunities of investment banking business, and in their wake fed portfolios of securities, first on a

<sup>73</sup> Philippe Marguerat, *Banque et investissement industriel*, op. cit.

<sup>74</sup> Hubert Bonin, *La Banque de l'union parisienne*, op. cit., p. 186.

temporary scale – pending listing –, then also to foster proprietary trading (for middle term profit) and leadership over the syndicates of commercial banks and investment banks (for the fees of the future issuing operations).

### C. Investment banks and financial markets

A last topics will consider the structure of financial syndicates, but we shall not extend these considerations in this paper, because of lack of room and because such a study is commonplace and well known indeed<sup>75</sup>. Surely, commercial banks were “indispensable intermediaries”<sup>76</sup> throughout the process of the financierisation of a few industries, above all the electrical utilities, because of their brokerage might due to their extended networks of retail banking and to their efficient divisions of private banking either at the Paris headquarters (with special rooms dedicated to the reception of well-eased customers, what *Crédit lyonnais* called its *Haute Banque* division still in the interwar period, as an imitation of the close relationship with personal investors reigning at the French family merchant banks or *Haute Banque* houses), or in about a hundred of large provincial branches where the “financial services” gathered one to several dozens employees and managers (more than a hundred in Lyon or Bordeaux, for example) dedicated to “solutions” to investors. This classically explains that commercial banks were second-tier lead managers in almost all the “guaranty function” originating syndicates set up, and often first-tier lead-managers in the “brokerage function” issuing syndicates.

Such a pregnancy of commercial banks was all the more confirmed because a majority of big firms, even if not family-typed ones but managerial-typed ones, or mixing both, did not open their capital to investment banks, refused to renege on their thorough independent way of life – as it has been shown for instance about *L'Énergie industrielle* or “Durand Group”, which anyway issued about FRF 500 million in equity and 750 million in bonds<sup>77</sup> through the issuings of its central firm, of its financial sub-holding and in-house asset-bank and of its affiliates. The “economic model” of *Union d'électricité* – mixing investment banks and utility groups among its capital and its stakeholders<sup>78</sup>, with a huge capital of FRF 350 million reached in 1930 and almost 300 million in bonds, to build half a dozen power plants in the Paris suburbs – could have been more an exception than a pattern indeed, which reminds us about the reluctance of many managers in front of banks' immixtion or partnerships, a topics already tackled beforehand in this paper.

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<sup>75</sup> Hubert Bonin, *Les banques françaises dans l'entre-deux-guerres*, Tome III : *Les activités financières des banques françaises (1919-1935)*, Paris, PLAGÉ, 2000.

<sup>76</sup> “Les banques de dépôts, intermédiaires indispensables”, p. 146, from: Henri Morsel, “Banques et hydroélectricité en France”, in Philippe Marguerat, Laurent Tissot & Yves Froidevaux (eds.), *Banques et entreprises industrielles en Europe de l'Ouest, XIX<sup>e</sup>-XX<sup>e</sup> siècles*, Droz, Geneva, 2000, pp. 137-151. André Straus, “Le financement de l'industrie électrique par le marché financier en France des années 1890 ans années 1980”, in Monique Trédé-Boumer (ed.), *Le financement de l'industrie électrique (1880-1980)*, Paris, PUF & AHEF, 1994, pp. 233-258.

<sup>77</sup> Henri Morsel, “Les finances de L'Énergie industrielle”, in Monique Trédé-Boumer (ed.), *Le financement de l'industrie électrique (1880-1980)*, Paris, PUF & AHEF, 1994, pp. 13-25. See Catherine Vuillermot, *Pierre-Marie Durand et l'Énergie industrielle. L'histoire d'un groupe électrique, 1906-1945*, Paris, CNRS Éditions, 2001.

<sup>78</sup> See H. Bonin, *La Banque de l'union parisienne*, *op.cit.* Fernand Scheurer, “Le financement de la croissance de l'industrie électrique privée. L'Union d'électricité, 1919-1946”, in Monique Trédé-Boumer (ed.), *Le financement de l'industrie électrique (1880-1980)*, Paris, PUF & AHEF, 1994, pp. 27-49.

	Equity	Bonds	Bonds	Equity	Bonds	Equity	Equity	Bonds	Bonds
	February 1930 (FRF 60,2 million)	April 1920 (FRF 80 million)	January 1922 (40 million)	June- July 1922 (50 million)	March 1924 (60 million)	June 1927 (50 million)	May- June 1930 (75 million <sup>79</sup> )	August 1930 (250 million <sup>79</sup> )	February 1934 (60 million)
Crédit lyonnais	16.67	28.21	28.22	14.833	26.71	13.5	13.096	27.8172	28.629
Société générale	16.67	24.59	24.6	14.833	23.29	13.5	13.096	24.2496	24.96
Comptoir national d'escompte de Paris	16.67	20.99	20.99	14.833	19.88	13.5	13.096	20.6908	21.297
Crédit commercial de France	16.67	9.94	9.94	14.833	9.81	13.5	13.096	9.7988	9.827
Banque nationale de crédit then BNCI	7.46	6.25	6.25	6.6	6.17	6	5	6.175	4.167
Paribas	16.67	3.75	3.75	14.834	6.66	13.5	13.096	3.6963	3.806
Banque de l'union parisienne	16.67	3.75	3.75	14.834	3.7	13.5	13.096	3.6963	3.922
Etc.									

Sources: bonds: Historical archives of Crédit lyonnais, DEEF 69 AH 46; equity: historical archives of Société générale

This differentiation in functions paved the way for a substantial involvement of commercial banks in the brokerage syndicates, as we studied precisely in one of our books<sup>80</sup> and as it has been well proven about *Crédit lyonnais*<sup>81</sup>. And everywhere it rarely went further into investment banking functions, conversely with *Crédit commercial de France*, *Banque nationale de crédit* and *Comptoir national d'escompte de Paris* – mainly in industries related to electricity, either utilities, electrical engineering (Thomson and its affiliate *Énergie électrique du littoral méditerranéen* for Comptoir national d'escompte de Paris, for example), or companies using electricity: aluminum<sup>82</sup>, electrometallurgy or electrochemicals. In the case of *Pechiney-Compagnie des produits chimiques et électrométallurgiques, Alais, Froges & Camargue*, the house bankers for corporate banking were *Crédit commercial de France*, *Banque nationale de crédit* and *Crédit lyonnais*, as co-lead managers for credit lines and for the brokerage of securities, without the intervention of investment banks, even on the flyer of the equity issuing in March 1929 (where a few other commercial banks rally the core trio: *Société générale*, *Société lyonnaise de dépôts*, *Société marseillaise de crédit*, and even the US bank Morgan)<sup>83</sup>. In these (not so frequent anyway) cases, they asserted a trend to co-lead-management in issuings syndicates concerning their main big clients, because they considered that some skills in investment banking prolonged corporate banking/finance. But differentiation prevailed undoubtedly about mandates for lead management, where investment banks were far ahead of commercial banks, even if those latter also practice such skills – which explains the weight of fees in the revenues of Paribas.

<sup>79</sup> Such an amount was used for the reimbursement of the 1920, 1922 and 1924 issues.

<sup>80</sup> See chapter 2 : “Les rapports de forces dans la banque de placement”; chapter 5 : “Les opérations financières : les rapports de forces interbancaires”, in Hubert Bonin, *Les banques françaises dans l'entre-deux-guerres*, Tome III : *Les activités financières des banques françaises (1919-1935)*, Paris, PLAGÉ, 2000, pp. 83-142 ; pp. 261-295.

<sup>81</sup> Bernard Desjardins, “Contribution à l'étude du rôle du cl dans le financement de l'industrie électrique, 1900-1943”, in Monique Trédé-Boumer (ed.), *Le financement de l'industrie électrique (1880-1980)*, Paris, PUF & AHEF, 1994, pp. 193-198. André Straus, “Le cl, les sociétés électriques et le marché financier français dans l'entre-deux-guerres”, in Bernard Desjardins, Michel Lescure, Roger Nougaret, Alain Plessis & André Straus (eds.), *Le Crédit lyonnais, 1863-1986. Études historiques*, Geneva, Droz, 2002, pp. 429-460.

<sup>82</sup> See Florence Hachez-Leroy, *L'Aluminium français. L'invention d'un marché, 1911-1983*, Paris CNRS Éditions, 1999.

<sup>83</sup> Historical archives of Société générale 6590, record Alais Froges, Equity issuing of March 1929.

1913	16
1919	19.3
1920	9.3
1921	26.7
1922	20.7
1923	18.9
1924	19.5
1925	16
Source: Report to the Board of Paribas, 1926	

Both types of banks were rich with the same portfolio of skills, but they used them along with a broad difference in intensity, because even when they insisted on their capital of competence in corporate finance, commercial banks avoided going so far as to threaten their patterns of liquidity and the structure of their balance sheet – conversely with. We cannot but quote the president of *Banque de l'union parisienne*, immediately after WWII, when he was heard by an official committee pondering about the nationalisation of investment banks in the same waggon that commercial banks : “*Nul doute qu'en ce qui concerne une banque de dépôts, les profits provenant des activités [bancaires et des 'services rendus'] ne représentent un pourcentage beaucoup plus élevé par rapport à l'ensemble. Cela tient, tout d'abord, à une différence dans la doctrine ; cela tient aussi à une différence dans l'organisation et la recherche de la clientèle. Dans la doctrine : opérations à dénouement immédiat en ce qui concerne les banques de dépôts, certaines immobilisations acceptées en ce qui concerne les banques d'affaires. Différence dans l'organisation : pour les banques de dépôts, succursales nombreuses, guichets nombreux donnant des contacts avec une clientèle éparpillée extrêmement nombreuse. Si important que soit pour elles l'apport des grandes sociétés, la petite épargne joue un rôle considérable chez les banques de dépôts. Rien de semblable pour les banques d'affaires qui, d'une façon générale, sans la négliger, ne recherchent pas – elles n'en ont d'ailleurs pas les moyens – cette clientèle de petits épargnants. Ce sont en réalité les excédents de trésorerie déposés par certaines sociétés qui lui permettent de couvrir les besoins des autres. À ces différences dans la doctrine et dans l'organisation correspondent des différences dans les faits. Pour les banques d'affaires : moins de puissance, mais plus de souplesse ; plus grosse proportion des opérations à moyen terme, plus grosse proportion des acceptations dans l'ensemble des risques, ceci pour les affaires de banque. Pour les affaires financières, des opérations qui constituent des immobilisations, par exemple, et au premier chef, des prises de participation que les banques de dépôts excluent au contraire par principe. En définitive, si les deux catégories d'établissements sont, dans leur ensemble, des concurrents, ils ont très souvent, du fait de la différenciation de leurs activités, des liens de fournisseurs à clients. Cela est vrai pour les émissions d'obligations dont une grosse part est négociée et garantie par la banque d'affaires, tandis que le placement lui-même est considérablement plus important dans la banque de dépôts puisque celle-ci a un contact plus étroit avec les clients épargnants. Pour les émissions d'actions, la banque d'affaires garantir les opérations dans des proportions beaucoup plus grandes que la banque de dépôts. Celle-ci, au contraire, exécute un plus grand nombre d'opérations de guichet.*”<sup>84</sup>

## 5. Issues of balance sheets and differentiation

In fact several means were used by commercial banks to alleviate the weight of their middle term commitments in their balance sheet and to prevent them from showing items that could entail their overall liquidity: middle term overdraft were disguised into renewable

<sup>84</sup> Note prepared for the speech of Paul Bavière in front of the *Conseil national du crédit*, 1945-1946, historical archives of bup and of sg.

short term overdrafts; when recessions burst out, all at sudden mere short-term bills of exchange revealed as renewable durable credits; they outsourced middle term credits to specialised affiliates (UCINA for *Crédit lyonnais* and *Comptoir national d'escompte de Paris*, etc.); and they controlled a few subsidiaries which bore the load of some participations. But anyway, despite such tricks, they were globally cautious enough to avoid falling into the traps of a possible crisis of illiquidity – and those which were lured by such “mixed banking” policy face hard times in the mid-1920s (for several regional banks and even *Banque nationale de crédit*) and moreover collapsed or were on the edge of doing so when the crash occurred in 1930-1935. Immobilisations were mostly required by the real estate investments for the networks and the headquarters and by the mechanisation process, whilst durable credits constituted most of the half-illiquid assets. Conversely, the large majority of investment banks’ immobilisations comprised durable credits on one side, and participations into affiliated holdings and into the capital of partner customers – either pending brokering securities after having led their issuing, or as a stakeholder to supply confidence towards these firms and thus convince market investors to purchase their securities and finally free the brokerage and guaranty syndicates from their blocks of securities. Their financial portfolios were much broader than those of commercial banks.

	Official value of the portfolio of financial participations (FRF millions)	Weight of the portfolio against overall assets (percentage)
Paribas	489	10.9%
<i>Banque de l'union parisienne</i>	327	16.3
<i>Crédit mobilier français</i>	83	28.3
<i>Banque des pays du Nord</i>	37	6.5
<i>Société générale</i>	60	0.4
<i>Crédit industriel &amp; commercial</i>	46	3.1
<i>Crédit commercial de France</i>	39	1
<i>Banque nationale de crédit</i>	37	0.6
<i>Comptoir national d'escompte de Paris</i>	7	insignifiant
<i>Crédit lyonnais</i>	4	insignifiant

This led naturally to the growth of a second type of portfolio, a capital of knowledge and competence, to be able to assess the accounts and assets of companies where to invest, their future ability to deliver returns high enough to face the service of securities, the risk lying with their obvious or hidden liabilities. Financial engineering became more and more a leverage of corporate banking activities, which were at the core of investment banking strategy in parallel with corporate finance (issuing of securities). Both types of portfolios bore returns, which constituted a business model mixing banking intermediary, engineering intermediary and financial assets.

Overall returns	77
Interests, discount, exchange operations	39
Returns from financial participations	23
Returns on fees	14

BROADER STATISTICAL STUDY STILL PENDING

### III. As a temporary conclusion

We shall only insist on two issues, because we should not “conclude” a research being still developed for a few years along with fresh investigations into data and comparisons with Italy and other countries.

## 6. About investment banks' power: rainmakers?

The myth or fantasy of the overall might of investment banks climaxed in France in the 1970s with “financial groups”<sup>85</sup>, notably mixing investment portfolios and portfolios of financial engineering, and led to their nationalisation in 1982. Sould we presume that the interwar period marked a step towards such a superiority edge over the whole industry and banking economy? Let us quote Éric Bussière, who repeatedly insisted on the invisible ceiling which blocked the advance of investment banks’ power over French economy: “*Malgré les apparences, l’itinéraire vers ce modèle ne fut pas totalement accompli. Le manque de moyens financiers constitue probablement l’une des raisons de cette évolution, tout particulièrement à cause de l’insuffisance des fonds propres de la banque, multipliés par 2,6 entre 1913 et 1930, alors que les prix de gros l’avaient été par 6. Si l’on tient compte du fait que l’évolution du marché boursier rendit très difficiles les émissions de valeurs industrielles jusqu’en 1927, l’on comprendra la difficulté pour Paribas, dépourvue de réseau, à faire face aux avances nécessaires aux entreprises de son groupe.*”<sup>86</sup> Long time ago, Pr. Bouvier noticed that inflation had cut into French banks’ reactivity and potentialities<sup>87</sup>; but beyond such considerations about the purchase power of banking availabilities, the main point might be the relative weakness of banks’ assets in front of the needs of industry and utilities: their capital, for instance, lagged far behind that of their industrial customers. If we compare Paribas and *Banque de l’union parisienne*’s capital and participations to those of a few industrial groups or sub-holdings of industrial and utilities groups (in 1936, see table 10), the values are striking.

Table 10. A comparative weigth of investment banks and a few industrial firms or their sub-holdings in 1936 (FRF millions)		
	Nominal value of capital	Value of the portfolio of participations of the firm
Rothschild	50	
Mirabaud	6	
Neuflyze	10	
Paribas	300	543
<i>Banque de l’union parisienne</i>	200	215
<i>Compagnie française des pétroles</i>	600	581
<i>Compagnie parisienne de distribution d’électricité</i> (utility)	400	81
<i>Énergie électrique du littoral méditerranéen</i> (utility)	395	359
<i>Union d’électricité</i> (utility)	325	166
Kuhlmann (chemicals)	316.5	142
Penarroya (mining)	309	193
Saint-Gobain (glass and chemicals)	300	788
<i>Société lyonnaise des eaux &amp; de l’éclairage</i> (utility)	260	473
Pechiney (electrometallurgy and –chemicals)	258	263
<i>Énergie électrique du Rhin</i> (utility)	250	51
<i>Énergie industrielle</i> (utility)	194	308
<i>Compagnie générale d’électricité</i> (utility)	174	501
<i>Union européenne industrielle &amp; financière</i> (Schneider metallurgy group)	140	220

Source: Jean Denuc, “Structure des entreprises”, *Revue d’économie politique*, January-February 1939, n°1, special issue *De la France d’avant-guerre à la France d’aujourd’hui*, p. 239.

<sup>85</sup> See Mahmed Sagou, *Paribas, anatomie d’une puissance*, Paris, Presses de la Fondation nationale des sciences politiques, 1981. Jean Baumier, *La galaxie Paribas*, Paris, Plon, 1988. François Morin, *La structure financière du capitalisme français*, Paris, Calmann-Lévy, 1975. Patrick Allard, Michel Beau, Bertrand Bellon, A.-M. Lévy & S. Liénart, *Dictionnaire des groupes industriels et financiers, en France*, Paris, Seuil, 1978. Bertrand Bellon, *Le pouvoir financier et l’industrie*, Paris, Seuil, 1980. Patrick Allard, “Le pouvoir. Restructuration et contrôle”, in ADEFI (ed.), *Les restructurations industrielles en France*, Paris, Économica, 1980. Alain Alcouffe, Christiane Alcouffe, Xavier Freixas, Michel Moreaux & François Morin, *La banque et les groupes industriels à l’heure des nationalisations*, Paris, Calmann-Lévy, 1977. Hubert Bonin, *Les groupes financiers français*, Paris, PUF, 1995.

<sup>86</sup> Éric Bussière, “Paribas et les entreprises industrielles”, *op.cit.*, p. 227.

<sup>87</sup> Jean Bouvier, Jacques Rougerie & Patrick Verley, *op.cit.*

Even if they were pathbreakers to bringing to fruition several firms of the second industrial revolution or the adaptation of companies formed during the first industrial revolution, they could not obviously act as rainmakers during the interwar period in front of the financial scope of industrial and utilities groups. Their portfolio of banking and engineering skills (with financial investments to accompany the listing of corporations pending the completion of the brokerage of their securities, and to practice proprietary trading) and their connections too were far better leverage to their *raison d'être* than proprietary investment – all the more because in 1928 utilities (14.1 per cent) and industries (33.3 per cent) ranked only second behind banking and finance affiliates and partners (45.6 per cent) within the participations assets of Paribas (FRF 393 million in 1928, only 41 per cent being invested in metropolitan France itself).

If we pile up the whole array of operations (issuings, participation into the capital, a very few bids) where investment banking was involved, the leadership of investment banks was no far greater than that of commercial banks. Managers either in family firms or in managerial ones kept bankers at hand, opening doors easily to their advise and connections, but less favourably to their actual power and financial stakeholding. We showed that *Banque de l'union parisienne* was a genuine and durable partner to about two or three dozens companies, but that Schneider cut into partnership when the bank did not comply with all its demands; Lazard exerted a key influence on Citroën for only two to three years before being dismissed as a mere supplier of sheet-metal. Several family or managerial firms had rather using their in-house corporate banking instrument rather than depending too heavily on investment bankers who could raise questions about management or accounts: Schneider loosened its ties with *Banque de l'union parisienne* and relied more and more on *Banque des Pays du Nord* (and also *Union européenne économique & financière*); steelmaker Wendel took control over merchant bank Demachy in the mid-1920s; collieries equipped themselves with a collective affiliate, *Banque de l'union des mines*, to balance big banks's hegemony. Pr. Bussière insisted on the invisible ceiling put on Paribas' ability of defining the strategy of its main customers. *Société générale* related<sup>88</sup> how the industrial stakeholders of *Union d'électricité* swept Paribas from the lead-management of the bonds issue on August 1930 because the investment bank relucted at admitting the in-house bank (*Union financière pour l'industrie électrique*) of their group as a co-participant to the guarantee syndicate, which explained the jump of *Crédit lyonnais* at the top of the pool:

<i>Crédit lyonnais</i>	19.051%
<i>Société générale</i>	17.627
<i>Comptoir national d'escompte de Paris</i>	16.178
<i>Crédit commercial de France</i>	12.16
Paribas	10.655
<i>Banque de l'union parisienne</i>	10.655
<i>Union financière pour l'industrie électrique</i>	3

Merchant houses (when developing their little circle of partners), investment banks (as venture capital practioners) and commercial banks (when they extended corporate banking to corporate finance; or drifting for a while towards mixed banking) were obviously pathbreakers, but we cannot consider that they were rainmakers. Of course, they managed the syndicates issuign and brokering securities, and thus they fully contributed to the process of “financiarisation” of French big business and somehow of middle sized

<sup>88</sup> Historical archives of *Société générale*, file *Union d'électricité*, August 1930. “*La Banque de Paris n'ayant pas voulu, lors la précédente émission, admettre l'intervention du groupe de M. Petsche [the chairman of Union d'électricité], ce dernier a refusé de traiter avec Paribas et a demandé au Crédit lyonnais d'être chef de file pour cette émission.*”



business. We even could suggest that in several cases, investment banks were much efficient and influent when they shared initiative with the State, in the sake of economic patriotism, to develop the equipment of the country in basic commodities (oil, electricity) and through the standards of concessions (utilities, the rights to Irakian oil, etc.), and thus private capital and bankers contributed to the emergence of a model of “mixed economy” promised to a brilliant future from the 1940s (as soon as 1941 through *Société nationale des pétroles d’Aquitaine*<sup>89</sup>) – and we must not forget that the State imposed its stake of a third of the capital of *Compagnie française des pétroles* at the start of the 1930s to promote national interest and to foster confidence from investors. Private investment banks were thus pathbreakers on this level because they contributed to shape the first lines of a new type of “mixed economy”, intended to carry out a peacetime economic war<sup>90</sup> through a co-operation of private rainmakers and emerging State economic elites.

## 7. Investment banks as pathbreakers?

None of the skills used by investment banks in the interwar period were brand new; beforehand, merchant banks had gathered the same portfolio of skills, and still went on taking profit on it – as has been detailed by Pr. Plessis about Mirabaud. Breakthroughs occurred anyway because the second industrial revolution imposed new constraints. First, the new dimension of investments, manufacturing and of credit to clients required to broaden the financial scope of companies, evolving towards “big business”: investment banks supplemented commercial banks practicing corporate banking because they developed more largely and frequently engineering competences, to list firms, to adapt family or managerial control to the opening of capital, to structure pools of durable creditors – and even organising a few mergers & acquisitions, but we did not tackle these topics there because only a few cases were determinant indeed. Second, investment banks supplied investors’ confidence (or tried to, because a few issuings were long to be completed on the brokerage side of the process), connections with the State ministries, financial engineering, art in syndicating large and durable credits. Thanks to a portfolio of skills, connections, permanent funds, and thanks to their ability to be lead-managers of syndicates of guarantee and to foster syndicates of brokerage for securities, they were able to godfather a new type of big firms, which thoroughly transformed the scope of French capitalism – even if a majority of corporations still avoided sharing power – or sharing it beyond a few quarters – with banks in the process of corporate finance. They actually constituted a leverage force to help industrialists and financiers conceiving and achieving big utilities, big oil firms, and – with a less edge of assertiveness – even big metal-manufacturing firms and chemicals firms. Such a paper could not deliver any case study nor details, but it can fuel arguments and comparisons.

STILL TO BE SUPPLEMENTED TAKING PROFIT FROM THE ARGUMENTS DURING THE BERGEN SESSION

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<sup>89</sup> Emmanuel Terrée & Alain Beltran, *Elf Aquitaine, des origines à 1989*, Paris, Fayard, 1998. Pierre Péan & Jean-Pierre Sérénis, *Les émirs de la République. L’aventure du pétrole tricolore*, Paris, Seuil, 1982.

<sup>90</sup> See Richard Kuisel, *op.cit.*