

MPRA

Munich Personal RePEc Archive

The Paris Bourse and the international capital flows before 1914

Quennouëlle-Corre, Laure
CNRS, Paris

September 2007

Online at <http://mpa.ub.uni-muenchen.de/6264/>
MPRA Paper No. 6264, posted 12. December 2007 / 16:40

The Paris Bourse and the international capital flows

before 1914

Laure Quennouëlle-Corre (CNRS, IDHE, Paris)

Considered as the golden age of international financial centres, the end of the XIXth century is a turning point in the long term competition between a few stock exchanges. Amongst them, London and Paris were in competition as international centres since the middle of the XIXth century. Before the First World War, London remained yet the most important capital exporter in the world (42%), followed by Paris (20%) and Germany (13%)¹. New York, although almost as large as Paris, remained a largely domestic market (8% of the global foreign investments). Concerning the one investment portfolio, whereas the London Stock Exchange (LSE) was undoubtedly leader in terms of capital markets as a whole - including money market, banking business, direct investments - the French savings were at the second rank concerning the foreign securities portfolio : it was multiplied by there between 1892 and 1913 (Table 1). From this perspective, the two main stock exchanges were specialised in different types of securities. The distribution between government and corporate securities is inverted between the two leading stock exchanges: the LSE's foreign market was composed with 78% of railways securities and the Paris Bourse focus was on the government bonds (80%), whereas other foreign securities were minor (about 9% by 1904, according to A. Neymarck²).

Table 1 The foreign portfolio in Great Britain and in France in 1913

Current values 1£=25F	Total of foreign securities (nominal value)*	Foreign securities (except colonial securities)**
London	3 715 000 000 £ (92 875 000 000 F)	415 000 000 000 F
Paris (official market)	42 675 000 000 F	455 000 000 000 F

* According to O. Moreau-Néret, *Les valeurs mobilières en France*, Paris, Sirey, 1939, who included the colonial securities. This kind of securities were considered either as a domestic or as a foreign investment or isolated, according to different economist and historians.

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

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

** According to J.-L. Billoret, who evaluated the foreign securities by withdrawing the colonial ones, see « Système bancaire et dynamique économique dans un pays à monnaie stable 1816-1914 », Thesis, University of Nancy, 1969.

Other contemporary authors' evaluations on the French foreign portfolio amounted to around 42-45 billions of francs (A. Neymarck, *Finances contemporaines*, R. Catin, *Le portefeuille étranger de la France entre 1870 et 1914, 1927.*)

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

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

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

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

Amongst the factors that have affected the development of international capital flows toward the Paris Bourse, some macro-economic reasons are now well-known: The role of the Paris as global monetary centre has to be considered as a an important factor for the international capital flows; yet the *Banque de France* hold at that time the most important gold reserve in the world after the USA. Secondly, the French banking sector is one of the bigger at that time. The *Credit lyonnais* was considered in 1913 as the biggest bank in the world. As wrote *the Banker* in 1909: "Any important loan could not be issued in Europe without the help of the international French banks"³.

From another point of view, the importance of savings in France compared to others Western countries set up an attractive reservoir of capitals for the whole world. From the savers' point of view, since the end of the war in 1871, the government stopped issuing large loans and allowed then the French savers, so fond of government bonds, to look for other similar profitable and secure investments: the road is clear for the foreign issues. Moreover since the 1860s, the French *rente* began to be less profitable⁴.

Another reason pointed out by historians is the weak demand for capital from the industrial sector at that time, which led to offer lots of possibilities for foreign issuers. This situation was enhanced by the commercial banks' attitude which preferred developing foreign investments more than

³ Quoted by Billoret, *op. cit.*

⁴ See S. Homer and R. Sylla, *A history of interest rates*. Rutgers University Press, 1996. But the French savers used to reinvest in semi-public sectors securities like railways companies which were both guaranteed by the State and more profitable the *rente*.

domestic corporate financing⁵. So despite of several krachs and crisis in the foreign market during the 1880s and 1890s, (Panama in 1888, gold mining shares in 1895, ottomans loans, Russian bonds in 1905...), the foreign issues were more and more appreciated by the French savers since 1894. Beyond this statistics, we would like to develop a range of organisation's and regulation's reasons which could contribute to explain the specific situation of Paris; first of all it is not irrelevant to precise the specificity of the French foreign investment and then to revalue some aspects of the architecture of the Paris Bourse, thanks to different archives.

1. Specific destinations and issues: Europe and Russia

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

During the 1860s and 1870s, whereas the LSE foreign securities were almost directed towards America and only 1/3 towards Europe, conversely, European countries were the French favourite investment. Yet since 1880, Europe became less and less appreciated by the French savers in favour of Russia (France was then the first investor for Russian public and private securities), with a continuous growth of colonial investments. Since then, the French savers began to invest in American securities, almost US railways companies or Mexico, Argentina or Brazil public and semi public loans. In 1914, the global foreign portfolio was between 40 and 45 billions of F.⁶, (2/3 governments' bonds, 1/3 private securities). 13,2 billions of francs were invested in Russia, 13,5 billions of F. in the rest of Europe (especially Spain and Portugal). From another point of view, the Mediterranean area (« *mare nostrum* ») wan 9 billions of F⁷.

⁵ At that time a polemic debate occurred between those which think that foreign investments did harm the French economy's needs for capitals and those which considered that the French corporations' growth were not enough dynamic to look for investments. But recent studies lead to think there was really an eviction effect against the domestic demand for funds. See M. Lévy-Leboyer and F. Bourguignon, *L'économie française au XIXe siècle*, Paris, Economica, 1986.

⁶ Estimations from A. Neymarck, *Statistique internationale des valeurs étrangères*, 1911, and R. Catin, *Le portefeuille étranger...*, *op.cit.*

⁷. R. Catin, *op. cit.*

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

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

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

It is generally admitted that the French choices depended on different factors like the political and diplomatic relationships between France and the other countries and also the geographic proximity of the issuers⁸. The Russian investments are one of the main examples of the savers attitude as a mix of political context, profitable and secure investment.

From another point of view, the solidarity between the big stock exchanges over a mid-term period involved a similar evolution of the equities' prices. J. Marchal brought some relevant proofs on that issue by comparing accurately the prices of shares and bonds between New-York, London, Paris and Germany during the 1898-1913 period⁹. He found that the correlation between the prices' evolution was important, especially between London and Paris, although some cyclic fluctuations were not quite synchronised over a year. So, concerning the international securities, the prices and the return on investment could not be relevant explanations of the success of one or another financial centre, except over a short time period (thanks to the "arbitrages" based on the different opening hours of the main stock exchanges).

Looking for reasons why this or that stock exchange was successful and attractive, I found that, at that time, the architecture of the Paris Bourse, its institutions, its organisation seemed to have played an important role in its international development. Two main points will be studied in this article:

⁸ R. Catin, *op. cit.*

⁹ J. Marchal, *Les grands marchés financiers*. Londres, New-York, Paris, Berlin. *Leur solidarité internationale*, Paris, Librairie Sirey, 1932. The comparison with London began only in 1907, because of the lacks of statistics before this date.

1. The unofficial market and the foreign equities
2. The role of the French deposit banks

2. The unofficial market and the international capital flows

Officially, the Paris Stock Exchange was managed since 1724 by the *Compagnie des agents de change* (CAC), a corporation of brokers which were supervised by the Ministry of Finance, an organisation becoming in fact a self regulating organization much as in the cases of London and New York¹⁰. The brokers - *agents de change*- received a monopoly of all secondary transactions in listed securities for a fixed number of members decided by the Government on the Paris Bourse. At the end of the XIXth century, there were only 70 offices allowed. The same organisation was set up for the local stock exchanges, seven at that time. All along the century, as the CAC remained the same organisation despite the burst out of the financial market since the 1860s. Thus have been emerging several operators in a multi-polar place such as the *agents de change*, the investment banks, officials of the Ministry of Finance, notaries and some small banks specialised in securities transactions (called *banquiers en valeurs*). Since the 1880s, the organisation changed and became concentrated around three main operators: *agents de change*, *banquiers en valeurs* and deposit banks. This new architecture appeared more and more clearly by the 1890s.

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

Table 3. Taxes on securities transactions 1894-1896

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

Source : AEF, *fonds Trésor*, B 65767

Moreover, according to the Ministry of Finance the amounts declared by the deposit banks and the “*coulissiers*” are considered as undervalued (AEF, B 43346, *note de la direction de l’Enregistrement et du*

¹⁰L. Neal and L. Davis, “The Evolution of Rules and Regulations of the First Emerging Markets: the London, New York and Paris Stock Exchanges”, *Quarterly Review of Economics and Finance*, 45, May 2005.

Timbre, 1887). Several hundred of millions of Francs could have been diverted from the Government's Treasury.

An informal group of dealers, promoters, and speculators became more and more active as the financial globalisation was taking off and as the French *rente* need to be applied for, setting up an over-the-counter market spilled out in the streets around the Stock Exchange. Moreover, the brokerage on the OTC market was lower than on the official market. The rivalry between the two markets is now well known and it is not our purpose to describe here its episodes¹¹. Nevertheless, it seems interesting to point out the special advantages of that unofficial market and to precise the difference between the two markets from an international perspective and their eventual complementarity's. For that was at this time a specific feature of the Paris Bourse. Despite of several legal proceedings against them, the outside brokers (the "*coulisse*") succeeded in developing a growing business, especially by the 1890s. By 1895, the outside market introduced and gambled on the gold mining companies' shares, thanks to its connections with the LSE intermediaries¹². They created an active market, which met lot of success. Unfortunately, when the English speculators withdrew their money from the Paris Bourse, the outside brokers were not enough strong to face the prices' fall and several went to bankruptcy whereas merchant banks like Rothschild helped as market makers (counterpart). This scandal allied with the growing competition with the official market led to a new regulation and organisation of the two markets.

Since 1898, the outside brokers were no more allowed make transactions on listed securities (especially the government's bonds) and they established their own quotation. In 1901, they created two unions on the same model as the CAC: the *syndicat des banquiers en valeurs à terme* (105 houses and 159 members in 1901) and the *syndicat des banquiers en valeur au comptant* (85 houses)¹³; a clearing house was set up and formal proceedings for entrance were defined as the CAC's model. But contrary to the agents de change, they were allowed to be market makers. The Paris Bourse was then under a double monopoly's control and this situation led to the revival of another free market; it seems very difficult to evaluate the size of this market, yet very small compared to the ex- *coulisse* or *marché en banque* (so called after 1898).

¹¹ For a complete story of the rivalry during the XIX th century, see P. Verley, "Les opérateurs du marché financier" in G. Gallais-Hamonno (ed.), *Le Marché financier français au XIXe siècle*, Volume 2, Publications de la Sorbonne, 2007.

¹² In London at least four different mining exchanges were established between 1855 and 1895; in the 1890s, an after hours street market on the shares of the gold mining companies did not lead to the creation of a rival exchange because these securities and the intermediaries were admitted at the LSE. See R. Michie, *The London Stock Exchange. A history*, OUP, 1999. They were not really alternative markets "being mere after hours markets catering time differentials", R. Michie, "The London and New York Stock Exchanges 1850-1914", *The Journal of Economic History*, Vol. 46, n°1, 1986.

¹³ AEF, fonds CAC, B 67 692.

It is clear that the growth of an over-the-counter market coincided with the internationalisation of Paris. As a matter of fact, the outside brokers developed an important know-how on foreign securities and used to manage the arbitrages between Paris and the other European stock exchanges¹⁴. First of all, they have developed a special skill on forward market, which was officially forbidden in France until 1885. Since then, they were still the more competent on that market and remained on the first rank. They had established a long time before numerous connections with the others European financial centres, especially with London, Brussels and Berlin. Most of them came from the rest of Europe then becoming naturalized Frenchmen: in 1903, 47% were foreigners (especially German natives¹⁵). Moreover, the partners of these banks were connected with foreign financing's networks¹⁶, particularly with Brussels where some outside brokers had founded branches. Beyond this decisive advantage, the free market was a flexible and reactive one: it was open three times a day (only one session of two or three hours at the official market) and that enhanced the outside brokers' aptitude for foreign transactions. Some rules also helped the free market to establish its international position.

Yet in 1892, the "modus vivendi" settled between the *Agents de change* and the *coulissiers* allowed them to list ottomans securities, Spanish *rente*, Hungarian 4% and Portuguese 3%; conversely the *agents de change* only kept the Russian funds on the official market¹⁷: that distribution reflected the gap between the two markets from an international perspective.

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

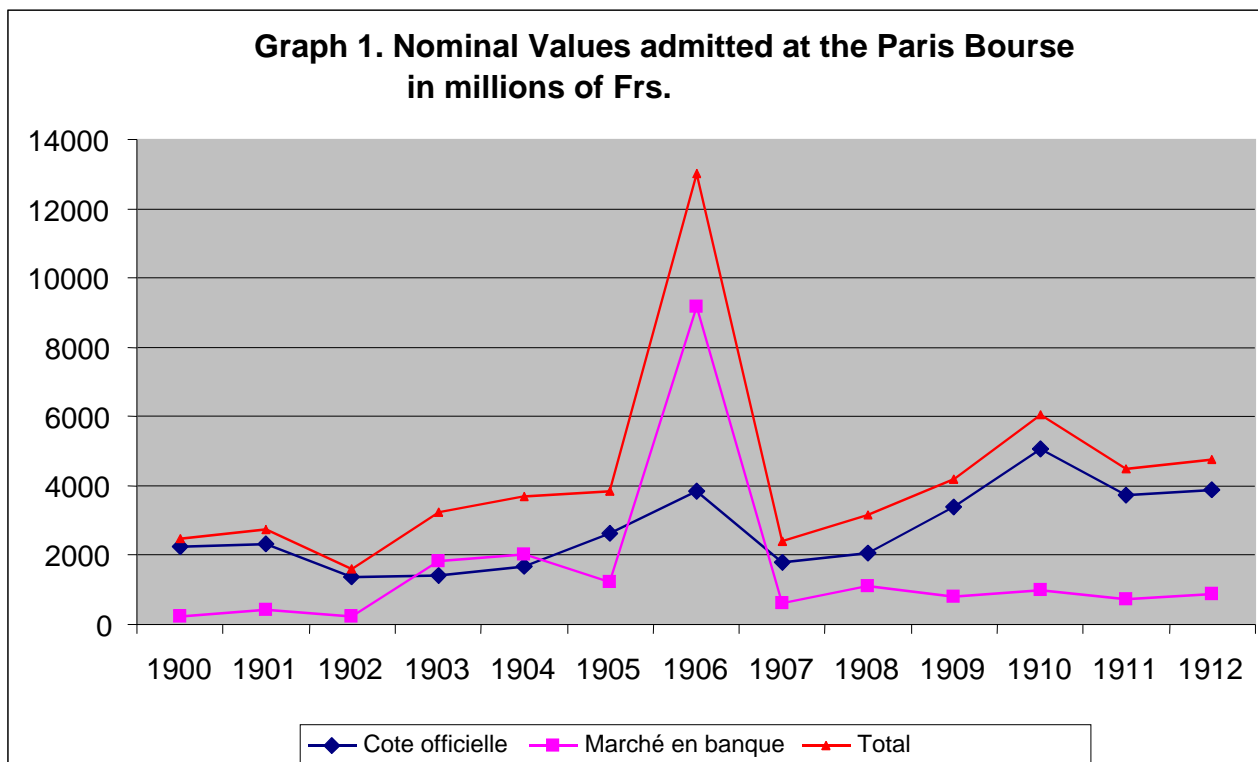
Nevertheless by 1913, thanks to the new regulations set up since 1898, the global situation of the official market seemed to take advantage. According to Neymarck, the total of nominal values at the Paris Bourse in 1914 was at the official market: 142 billions of Frs., at the OTC market: 23 billions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

¹⁴ This activity was profitable because of the different opening hours of each stock exchange, which allowed the *arbitragistes* to buy and sell very quickly with high profits thanks to the development of telegraphs by the 1880s.

¹⁵ The LSE was also open to foreigners especially from Germany.

¹⁶ See P. Verley, « Les opérateurs du marché financier.. », *op. cit.*

¹⁷ AEF, B 43348, Note de la direction générale de l'Enregistrement et du timbre, 19/10/1902.



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

N.B.: By 1903 and 1904, the Free market by passed the official one for the total of values. The 1906 year appeared fine for the OTC Market which is temporary leader. It has been shooting ahead during a few months thanks to the issue of the Spanish internal "rente" 4% (8, 5 billions of pesetas subscribed mainly by foreign investors) which led to an increasing amount of nominal values. Then it began to fall down and the gap between the two markets grew until the War.

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

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

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

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

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

Securities introduced on the Parquet and on the OTC market*

1899-1913

	OTC	PARQUET
Foreign governments' securities	82	136
Foreign shares	509	156
Foreign bonds	229	135
Total	820	427

* Source :R. Catin, *op.cit.*

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

QUOTED SECURITIES ON THE OTC MARKET in 1901

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

<p><i>Bonds</i></p> <p>Railways and transportation : 25</p> <p>Electricity, gas, water cies, metallurgy: 17</p> <p>Others: 32 (Rio Tinto, Tonkin railways)</p> <p><u>Forward market</u></p> <p>3 foreign governments' securities</p>
<p>7 industrial bonds</p> <p>52 shares (almost gold mining companies) but no regular quotation</p>

Source : ACL, relevé des cotes boursières 1901

As a matter of fact, the OTC market is a mix of solid values of minor importance, or newly introduced on the stock exchanges, or speculative securities; but few securities issued on the OTC market have been then on the official list: only 6 between 1909 and 1914. It attracts either big investors or financial intermediaries. One of the main interests of the outside market for the professional investors was the only one account day by month (contrary to the official market on which two account days by months were set up) which allowed the great development of carrying over transactions enhanced by a lower brokerage's rate¹⁸. Besides, Paris was an important change place and it attracted many foreign investors like the Russian gentry¹⁹. Little savers were also lured by the high profits won with some securities like the gold mining' shares. As a matter of fact, the OTC market was also in competition with the local banks and the local stock exchanges and those institutions suffered from its lower brokerage's rate.

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

1° First of all, the CAC's monopoly based on a "numerus clausus" was not in favour of an international development: By 1914, the number of official brokers on the Paris Bourse was 70 whereas they were about 4500 brokers at the LSE²⁰! Although the architecture of the two stock exchanges cannot be easily compared but in term of financial intermediaries, the demographic gap could partly explain the free market development. The New York Stock Exchange was in the same situation in the beginning of the XXth century, when on the two outside markets the Consolidated Stock Exchange and the Curb were traded a number of common shares more important than on the

¹⁸ London was the other big market for carrying over transactions.

¹⁹ R. Girault, *Les emprunts russes et les investissements français en Russie*.

²⁰ R. Michie, *The London Stock Exchange, op. cit.*

NYSE (53,5%)²¹. As its members refused to recognize the outside brokers and to deal with them, it suffered more than the CAC from the free market's competition.

Moreover, according to P. Verley, the *agents de change* were not at all willing to develop foreign transactions as they did not find it useful to learn foreign languages... Moreover they did not prove any entrepreneurial behaviour preferring security to risk, being more officials than traders. Contrary to the LSE's members, they did not permit to buy or sell whatever securities that attracted them and that attitude allowed the establishment of a street market becoming more and more active. Finally, they were under the ministry of Finance supervision, which could be interventionist on foreign governments' securities for diplomatic reasons.

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

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

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

The tax system changed several times in this period, because the authorities became aware of the disparity of taxing between the different kinds of security. To make it short, let's say that until 1895, the foreign government's securities were tax-exempted – except the income tax due on every security since 1872- , like the domestic ones. Conversely, the shares and bonds were taxed with an annual “droit de timbre” or an “abonnement” (the issuers paid once for three years). The “abonnement” was more advantageous and more frequent it was necessary for being listed at the

²¹ R. Michie, *The London and New York Stock Exchanges 1850-1914*, *op. cit.*

official market; but once the company subscribed its securities, it was tempting for them to stop listing and be traded on the free market²². 21 companies left the official list in 1895. Thus to pay less taxes, semi public companies' securities or securities guaranteed by the government were declared as foreign government's ones. By 1914, an official report estimated that over the total of foreign securities (40 billions of Frs.), 13 to 15 billions escaped from the taxation²³.

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

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

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

Since the second half of the century, the deposit banks were more and more active on the stock exchange, as for launching issues with merchant banks, as for underwriting securities or as for buying, selling and keeping securities for their own customers. When they launched issues on the market, they received comfortable commissions (underwriting commission or guarantee commissions...). In trading operations, different rules advantaged them compared to other intermediaries. On the one hand, the deposit banks were allowed to pay only one tax on the larger of two matching orders passed in the same session on the same securities (*franco de courtage or "par contre"*). Moreover, they often did not at all declare this kind of orders, in order not to pay taxes or brokerage commissions (called *applications*)²⁴. On the other hand they were often granted with brokerage commissions' discounts, although this practice was forbidden by the CAC. Conversely, the discounts on the securities transactions made on the outside market were more and more important²⁵. When clients placed securities in safe deposits at their bank, this one was sure to monopolize all the securities transactions the savers would make... and get then all the benefits linked with the transactions.

They also helped the market functioning as they provided liquid assets for the carrying over transactions (40% of the capital needs between 1900 and 1914 according to P. Verley). Yet, this

²² That reason was a good one before the 1893 tax reform which compelled the outside brokers to declare their transactions.

²³ Quoted by R. Girault, *Les emprunts russes...., op. cit.*

²⁴ Applications were considered as illegal but it was difficult to prove the fraud. Yet, since 1892, applications became more difficult because the relationships between the *Credit lyonnais* and the brokers became bad. See further.

²⁵ In 1910, the discounts increased from 20% to 33%.

kind of transactions was submitted to a low brokerage. That's why they became formidable competitors of the brokers when they discovered the high benefits they could earn on the Stock Exchange trading.

To pinpoint the increasing importance of the deposit banks in the French system, the example of the *Credit Lyonnais* seems the more relevant. It appeared as a representative French institution with lots of branches within France and Europe and moreover was a leader among the commercial banks in the securities transactions²⁶. As a matter of fact, CL paid at that time the most tax on securities transactions compared to the others²⁷. As we can see on table 5, the securities transactions' benefits of the bank were consequent:

Table 5. Benefits on securities' transactions

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

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

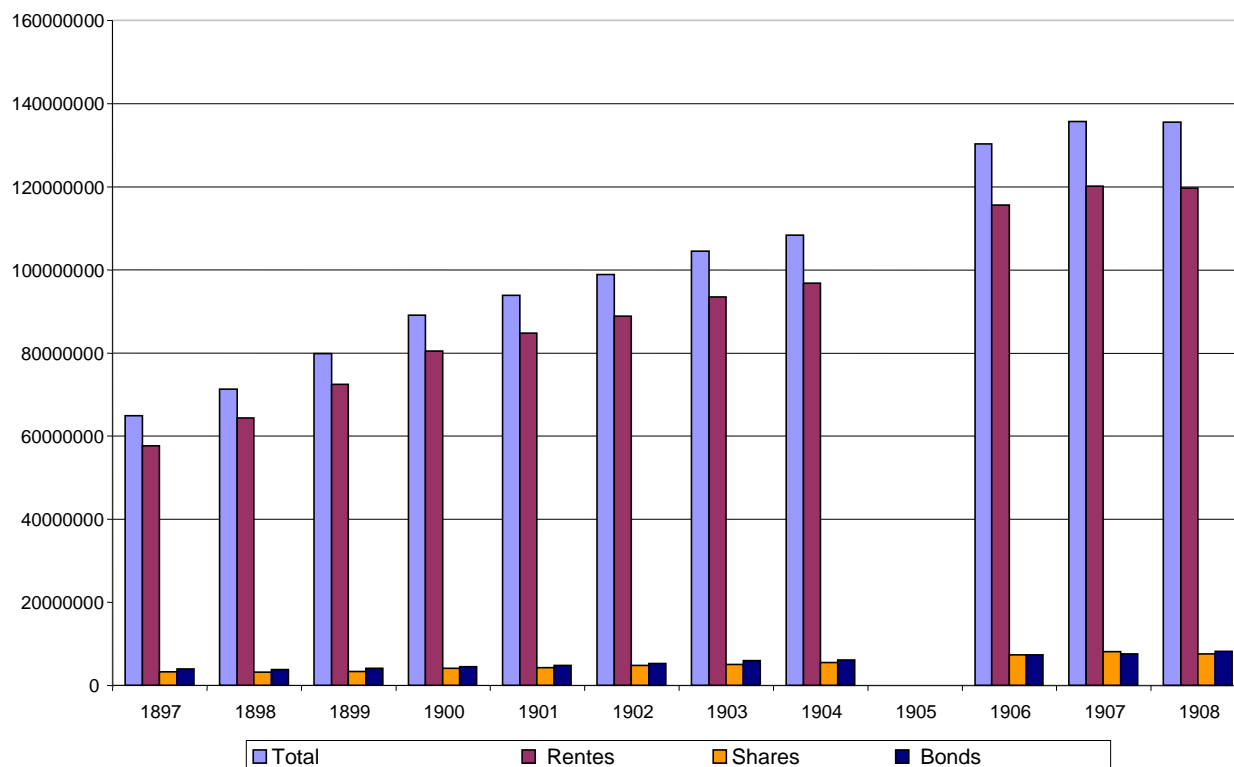
The importance of the securities placed by the deposit bank is pointed out in graph 3. The French and foreign government's bond prevailed in the CL customers' portfolio and, compared to the average French portfolio at this time, the industrial bonds' investments were quite low, especially railways companies'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

²⁶ J.-L. Billoret, ... showed that since 1894, the *Société générale* and the *Comptoir d'escompte* followed the example of the *Crédit lyonnais* by tapping on the securities market.

²⁷ Tax on securities transactions paid by the *CL* in 1894-1896: 121 857 000 F, by the *Société générale* 77 250 000 and 65 840 000 by the *Comptoir d'escompte*. AEF, B 65 767.

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

In millions of Frs.



Source : ACL, 98 AH 004.

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

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

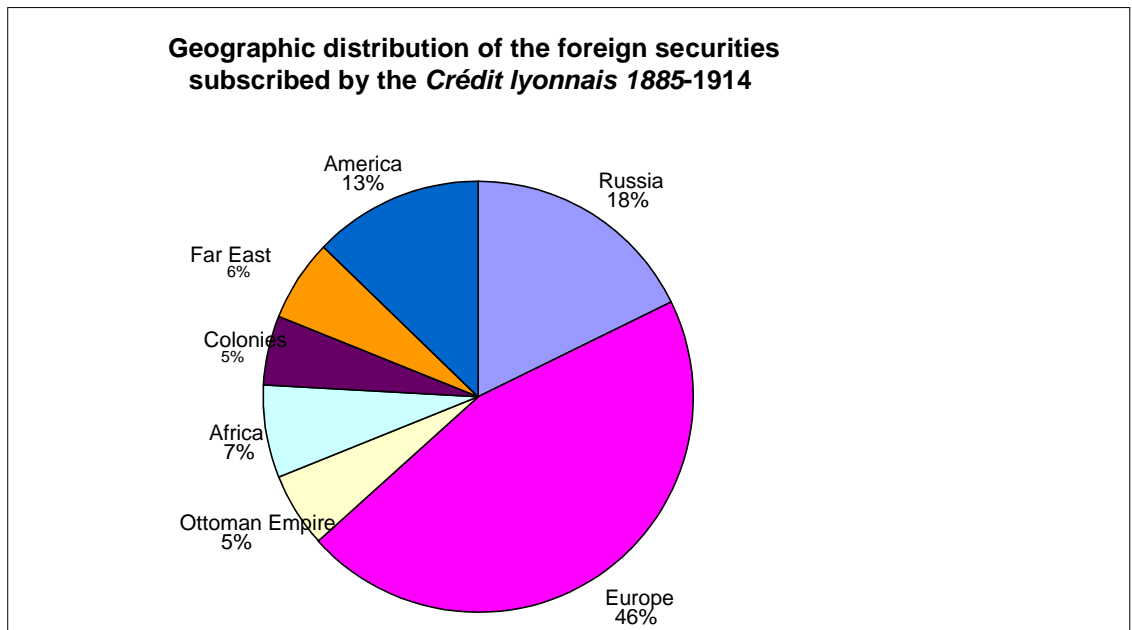
Between 1896 and 1914, the part of its foreign securities' benefits amounted to $\frac{3}{4}$ of the total and the Russian securities half of the foreign benefits²⁸. The securities proposed by the bank between 1885 and 1914 were about 420, including 242 foreign or colonies' securities²⁹. The coupons were of various nominal value and the issues proposed at its counters were more important than the domestic ones. As Table 6 points out, the distribution was a little different from the global foreign investment: Europe, Far East and Africa are more often proposed to the CL's customers³⁰.

²⁸ J. Bouvier, *Le mouvement du profit en France au XIXe siècle*.

²⁹ ACL, 098AH87 à 098 AH 089. The documents establish the name of the company, the issuing date, the volume of securities issued, and so on.

³⁰ Of course the comparison is not quite precise for on one side you have the number of issues and on the other side the volume of foreign investment. Nevertheless, as the issues were of the same volume, it is relevant to do it.

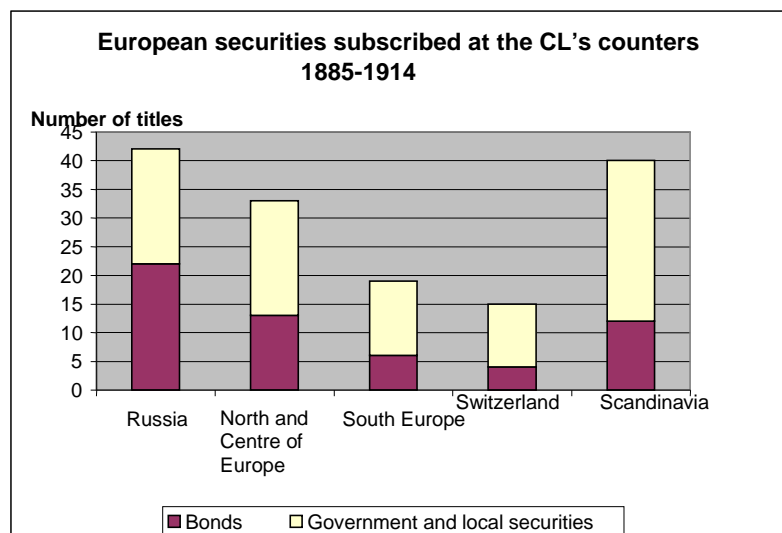
Graph 4.



Source : ACL, 098 AH 086 /087

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

Graph 5



Source : ACL AH 086 – 87

These statistics help to demonstrate how a big deposit bank could have influenced the investments of savers and thus played an important role on the Paris Stock Market. First of all, Henri Germain the famous founder and President of the *Credit lyonnais* recommended to his branches to choose investments according to criterions based on safety more than on liquidity or return³¹. Then the European strategy of the *Credit Lyonnais* influenced partly its branches' investments; it explained for instance why the Scandinavian securities were much more placed at its counters than in the rest of the Paris financial market throughout the 1890s. From the Scandinavia point of view, the Paris Bourse became an attractive market, whereas London was almost interested in America and Berlin was considered as too expensive. Thanks to their tight links, the *Credit lyonnais* and the *Stockholm Enskilda Bank (SEB)* created a guarantee *consortium* to launch about 40 Swedish or Norwegian issues in France within thirty years and the two banks shared the lead management for all the government's loans from 1890 until 1900³². Consequently, the CL placed the Scandinavian issues prior to any others; moreover none of these securities were on the official list and only a few of them on the unofficial market. The bank used also to sell to its customers several loans of the *Banque de la noblesse russe* inside its branches (called "vente en cave"); but this practice was forbidden by the 1907 rule on company's information. Another feature pointed out from the archives is the London branch's connection with the domestic branches, by passing then the official networks. Since the gold mining shares' boom on the European stock exchanges, the London's branch received important funds from the CL's domestic branches³³. By 1895, its own benefits on securities transactions have gone up 153%! A precise example concerns the nine Japanese funds which have been bought between February and April 1909 directly by the domestic branches at London, with the help of the CL's branch established there (nominal capital: 1 892 800 yens). Only three out nine of the Japanese securities were proposed on the different French markets between 1905 and 1909 (listed or unlisted quotation). Only one - the Japanese 4% loan - was sold at the domestic counters...That issue can be partly explained by the 1904 Russian Japanese war: The Japan needed to finance the war and issued loans in Great Britain; on the contrary, Russia's main provider was France. But the French savers could think that Japan could be also a good issuer and decided to invest both in Russian bonds and Japanese loans...

³¹ ACL, 85AH1. Of course, within the securities, governments' loans seemed at that time the more secure investments.

³² U. Olsson, « Le Crédit lyonnais et la SEB » in B. Desjardins, M. Lescure, R. Nougaret, A. Plessis, A. Straus (eds), *Le Crédit lyonnais 1863-1986. Etudes historiques*, Genève, Droz, 2003.

³³ The funds provided for 30% of its means. See F. Gallice, "Le Crédit lyonnais à Londres 1870-1939" in *Le Crédit lyonnais, 1863-1986.., op. cit.*

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

The analysis of the securities placed by the *Crédit lyonnais* also outlines the relationships between the outside market and the bank. Since the second half of the XIXth century, an alliance between deposit banks and outside brokers began then to set up. Moreover, as we have seen above, the deposit banks tried to trade prior with the *coulissiers* as the outside brokers' commissions were much more interesting for banks than the official brokers'. More than a symbol, from 1880 until 1892, the *Crédit lyonnais* hosted at its entrance in Paris the outside market, called "la petite bourse du soir", which was more or less allowed tacitly. Yet, by October 1892, the *agents de change* began to fight against the outside market and its allies and withdrew the discounts that the bank could grant on the securities transactions (5th October 1892)³⁴. They lodged a complaint against the bank, the government sent the police and decided to close the bank's entrance in the evening (9th October 1892). This was the end of the "petite bourse du soir" at the *Crédit lyonnais*, and the bank managers were relieved of that outcome, which could allowed them to renew with the *agents de change*³⁵. Nevertheless, the links between the outside brokers and the *Crédit lyonnais* remained close.

From the issuing to the underwriting, from the trading to the securities placing, without forgetting the role of the bank in carrying over transactions and on the outside market, the deposit banks played a central role for the liquidity and stability of the Paris Bourse at the beginning of the XXth century. Before the WWI, thanks to their concentrated power, they placed the main part of the securities to the French savers, to the detriment of the Paris Bourse and the local stock exchanges. Not interested in being involved in the manufacturing sector as stakeholders, the three big banks, *Credit lyonnais*, *Société générale*, *Comptoir d'escompte* focused on the benefits of the financial services they were well paid for; in that way they developed and reinforced the savers' attraction for foreign securities and created for several decades a special market in foreign securities, in the detriment of the domestic values.

³⁴ ACL, 138AH2, correspondance entre Bethenod et Mazerat, année 1892.

³⁵ *Idem*.

Conclusion

This study wanted to pinpoint the different securities transactions' channels in France, which are quite specific compared to other countries. Since the mid-century, the free market is an important part of the capital market in France. Despite the new regulations of 1898, it continues to prosper as an active market, especially in foreign securities and new companies' issues. The deposit banks are also an important part of the Stock Exchange's activity, especially for the secondary market. As a matter of fact, the Paris Bourse could not be well explained without the free market and the deposit banks 'transactions. This organisation leads to a three pillar's system, a specific feature of the Paris Bourse.

The three institutions were then competitive but also complementary, each one finding and keeping its own customers. The main point is that, despite their disputes, the three intermediaries succeeded in working together and in maintaining fluent flows between the different channels. By this way, they enhanced the stability and the liquidity of the whole market. Finally, the local stock exchanges and the local banking system were the main victims of the system... Could the Paris Bourse have been more "efficient" with another organisation? Undoubtedly the financial architecture is one of the comparative advantages a stock exchange can offer to its customers. But the first point in discussion is to consider whether the international capital flows resulted from specific institutional practices or not? The second one is to understand how different frameworks – and not only one model - have succeeded in financing economic growth on the long term from different points of views: corporate financing, domestic economic growth, investors ... To my opinion, this question has to be answered on a long term period, for the Belle époque was the golden age of the Paris Bourse and not the relevant period : the second international centre seems to have provided for the international investors' and savers' needs. Yet, at that time the lacks and defaults of the organisation could have been hidden by an apparent success of the Paris Bourse.

It would be more relevant to answer this question by studying the Paris Bourse along the XXth century and by comparing it with the other main centres. For instance, its free market was organised like the Curb in New York but, contrary to it, it was specialised in foreign securities. It was supervised by the government like the German Stock Exchanges but, as a matter of fact, the regulation was actually less strong and less hierarchic (for instance, the forward market was forbidden in Germany since 1896). Compared to the LSE, the two monopolies of the Paris Bourse were much more supervised and the number of brokers less important, but both of the two Stock exchanges succeed in capturing similar flows of capital thanks to a dynamic forward market and a system of trading and payment which allowed liquidity.

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

ABREVIATIONS

ACL : Archives du Crédit lyonnais

AEF : Archives économiques et financières

CAC : Compagnie des agents de change de Paris

REFERENCES

J. Bouvier, *Le Crédit lyonnais de 1863 à 1882. Les années de formation d'une banque de dépôt*, Thèse, 2 tomes, 1961.

J. Bouvier, F. Furet and M. Gillet, *Le mouvement du profit en France au XIXe siècle : matériaux et études*, Paris, La Haye, Mouton, 1965.

J.-L. Billoret, « Système bancaire et dynamique économique dans un pays à monnaie stable 1816-1914 », Thèse de sciences économiques, Nancy, 1969.

L. Brocard, *Les grands marchés financiers*,

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

R. Catin, *Le portefeuille étranger de la France entre 1870 et 1914*, Paris, Jouve, 1927.

B. Desjardins, M. Lescure, R. Nougaret, A. Plessis, A. Straus (eds.), *Le Crédit lyonnais 1863-1986. Etudes historiques*, Genève, Droz, 2003.

L. Deville, *Les crises de la Bourse de Paris 1870-1919*, Thèse pour le doctorat, 1911.

G. Gallais-Hamonno and P.-C. Hautcoeur (eds.), *Le Marché financier français au XIXe siècle*, 2 Volumes, Publications de la Sorbonne, 2007.

E. Guilmard, *Le marché libre de la Bourse de Paris*, 1912.

- R. Girault, *Les emprunts russes et les investissements français en Russie 1887-1914*, 1973, rééd. Paris, CHEF, 1999.
- S. Homer and R. Sylla, *A history of interest rates*, Rutgers University Press, 1996.
- A. Lechopié, *La coulisse et le monopole des agents de change*, 1883
- M. Lévy-Leboyer (ed.), *La position internationale de la France, aspects économiques et financiers, XIXe et XXe siècle*, Paris, EHESS, 1977.
- L. Neal and L. Davis, "The Evolution of Rules and Regulations of the First Emerging Markets: the London, New York and Paris Stock Exchanges", *Quarterly Review of Economics and Finance*, 45, May 2005.
- J. Marchal, *Les grands marchés financiers*. Londres, New-York, Paris, Berlin. *Leur solidarité internationale*, Paris, Librairie Sirey, 1932
- P. Marseilhan, *La coulisse et sa réorganisation*, 1931.
- C.-A. Michalet, *Les placements des épargnants français de 1815 à nos jours*, 1968.
- R. C. Michie, "The London and New York Stock Exchanges 1850-1914", *The Journal of Economic History*, Vol. 46, n°1, 1986; *The London Stock Exchange. A history*, OUP, 1999.
- O. Moreau-Néret, *Les valeurs mobilières en France*, Paris, Sirey, 1939.
- A. Neymarck, *Statistique internationale des valeurs mobilières*, 1911. *Finances contemporaines*, 1902-1911.
- A. Raffalovitch, *Le marché financier* (annual reports), 1892-1913.
- E. Vidal-Naquet, *La bourse des valeurs mobilières*, conférence de 1916.