SUMMARIES OF LECTURES in ECO 303Y1:

the Economic History of Modern Europe, to 1914

for the Academic Year: 2012 - 2013

****

Updated: Thursday, 31 January 2013

XVI: Week no. 16: Lecture Topic 19: on 30 January 2013

French Banking and Financial Institutions in the 18th & 19th century: to 1914

1. **French financial institutions: the Bank of France**

a)This lecture began with another aspect of historical path-dependency: to explain why the heritage of French financial disasters, especially those of the 18th century, help to explain why the Bank of France, founded by Napoleon in 1800, pursued such ultra-conservative monetary policies, which they imposed on the private banking sector.

b) **The policies of the Bank of France were examined,** dealing with the criticism that they unduly restricted the supply of money and of credit: making each too inelastic

i) The very high reserve ratios required for the Bank of France and other banks: thus restricting lending and the creation of bank money

ii) very high denominations for banknotes: minium of 500 francs (when average annual male income was only300 francs

iii) restrictions on discounting commercial paper

iv) Bank of France's refusal to act as a lender of last resort
c) **The evidence comparing central-bank interests rates in 19th century France, Germany, and Russia do not vindicate that negative view,** since French rates were always the lowest

d) **A fair conclusion may be that financial conservatism served the French economy well,** even though the Bank of France was reluctant to act as a central bank, as a lender of last resort, as will be seen in the next topic.

2. **Investment Banking: the era of the 'New Bank':**

a) **The 'Haute Bank':**

i) we began by examining the structure of French private banking, centred on Paris, in the early 19th century: dominated by Protestants (Huguenots) and Jews

ii) the reasons why these two minorities, subjects of considerable social and economic discrimination, dominated French private banking were discussed

iii) a principal factor was the international nature of their commercial banking (linked to foreign trade) and the importance of international connections with co-religionists.

b) **The 'New Bank:**

i) **The central part of the lecture dealt with the rise of a very radically new form of banking in continental Europe:** investment banking, which first arose in the post-1815 new Kingdom of the Netherlands and then in France.

ii) With a virtual vacuum in capital markets, in contrast to well developed capital markets to be found in Britain, and with far larger initial capital costs of industrialization, the British type of deposit banking offering only short-term credit, chiefly for financing working capital needs, would hardly suffice.

iii) The new investment banks – the first of which was founded in Brussels in 1822 (then part of the Kingdom of the Netherlands) provided long-term financing for large-scale fixed capital requirement,

iv) raising the investment capitals from the sale of stocks in their banks, but also by organizing syndicates to market Initial Public Offerings (IPO) in stocks and bonds.

c) **Credit Moblier:** 1852 - 1867

i) The next part of the lecture was a case study of the most prominent and indeed only true investment bank in 19th-century France: Credit Mobilier, which had a dazzling 15-year career (1852-1867),

ii) until it collapsed in a liquidity crisis, one in which the Bank of France refused to act as Lender of Last Resort.

iii) The collapse was due largely to the enmity of the Bank of France and the Rothschilds

iv) But following the collapse of Credit Mobilier, the Rothschilds took up investment banking, though restricting their investment banking large to other parts of Europe

v) Whether or not France's banking and financial structure was a factor that either promoted or retarded 19th-century industrialization is an unresolved debate.

d) **patterns of French savings and investments:**

i) What is not debated is the fact that collectively the French came to invest almost 50% of their savings abroad, by 1914: for both institutional and political reasons (financing Russia as a counterpart to Imperial Germany).

ii) Was this a result of 'path dependency;" given the dominance of Protestant (Huguenot) and Jewish banking firms whose success had been based on their international connections with co-religionists and on international commercial and financial transactions?

iii) or was it the result of traditional French business antipathy to banks and the reluctant of small French firms – family firms and partnerships – to subject themselves to the control of banks?

XVI: Week no. 16: Lecture no. 20: on 30 January 2013

The Debates about French Industrialization and Economic Growth in the 19th century (or 1815 - 1914):

1. Natural Resource Endowments and the Coal Problem:

a) **Coal:** We began with the natural resource endowment problems: in particular, the scarcity and high cost of coal for French industry.

i) As a noted economic geographer once contended, 'an industrial map of Europe in the 19th century was essentially a map of its coal fields'.
(1) Remember the crucial importance of coal as the essential ingredient of modern industrialization: for the iron and steel industry; for steam power and steam engineering, and thus for the transportation revolutions in railroads and ocean shipping;
(2) and also for the Second Industrial Revolution in electrical power (coal-fired steam turbines) and the new coal-based chemicals industry.

ii) Because smelting one ton of iron ore required about ten tons of coal, economic logical dictated that metallurgical industries be located near coal fields, not iron ore fields.

iii) But for both political and economic reasons, France had one major exception in her steel industry located near the Lorraine iron ore fields (that part of Lorraine left to France after the 1870 Franco-Prussian war).

iv) Even afer the coming of the railroads in the 1850s, transporting coal remained high cost. Since France had to import about 35% of its coal needs in the late 19th century, the problems involved not just high transport costs, but also high import tariffs, and high cartel-price imposed on the sales of German coal from the nearby Rhineland (to be explained more fully in the lectures on German industrialization).

b) **The Iron and Steel Industries:**

i) We then dealt with the iron and steel industries, noting how France coped with the coal problems, through large-scale, cartelized, and heavily capitalized steel firms (10 of which controlled over 80% of total output by the 1890s).

ii) A fuller explanation of the role of tariffs and cartels in explaining the success of both the French and German steel industries must await our subsequent lecture on German industries.

c) **Other 19th-century Industries: Textiles, Foodstuffs, Automobiles:**

i) Next we considered the two major industries in terms of employment, value of output, and capital investments: textiles (woollens, cotton, linens, silks) and foodstuffs, the more important of the two.

ii) We explained why French textile industries had little impact on France's foreign trade.

iii) The great industrial successes in the late 19th, early 20th century lay in hydro-electric power and especially automobiles,

iv) automobiles: an industry in which France gained European predominance up to 1914, but then lost that predominance to Great Britain in the inter-war period (1919-1939).

2. **French Industrial Growth and growth rates, 1815 - 1914:**

a) **the family firm and the question of industrial scale:**

i) We also dealt with the thorny issue of industrial scale, in particular responding to David Landes' famous thesis that small-scale family firms proved to be the curse of 19th century French industrialization.

ii) In contrast, I provided evidence of very significant large-scale industries, of recent econometric evidence indicating the French industries had achieved optimal scales by the 1860s, in terms of product choice, capital requirement, and market conditions.

iii) I also argued that, since France's historic comparative advantage had been in luxury manufactures, small scale production was in fact desirable for many reasons, especially concerning quality-controls and market reputations.

b) **the debate about French industrial and economic growth in the 19th century:** especially 1860 to 1914.

i) The final session dealt with the debate about French economic growth in the 91th century: in aggregate terms, in which France compares badly; but in per capita terms, it fares well.

ii) I argued, however, that per capita evaluations that do not take full account of demographic changes, and the relationships between population and economic growth, can be very misleading.

iii) In any event, the crucial statistic to be noted is that in 1900, as measured on constant 1970 US dollars, per capita output in France, at $883.00, was only 67.8% of that for Great Britain, at $1,302.00.

iv) Indeed of the five major countries compared, France fared the least well, in 1900.

v) Other statistical comparisons can be found in the online lectures, including the subsequent lectures on Germany, Russia, and Great Britain (1870 - 1914).