

A Note on the Branch Management of the Bank of France before the World War I: the case of the Avignon branch

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Preface¹

Having been founded in 1800 by the Napoléon I as a joint-stock company and managed first by the board of directors, which was composed of the leading bankers in Paris (« Haute banque ») and merchants, and second by a Governor and two vice-Governors nominated by the state, and third general tax collectors (« receveurs généraux »),² the Bank of France (abbr. BoF) has changed its role after the second half of the 19th century, according to the market evolution. The role is represented by « lender of last resort ».³ Typical examples are bailout loans by the BoF in the collapse of the following well-known banks: the « Union Générale » and the « Comptoir d'Escompte de Paris ».⁴ This movement means that the BoF led to function during the financial crises as a bank contributing to the national interest or fill its one of the central bank roles in that it acted for the maintaining market stability.

It seems that in the provinces, the roles of the BoF are not as clear as the above action of the main office, because preceding studies do not reach a consensus of opinion. On the one hand, Lescure emphasizes that the reduction of profits of the BoF in the provinces by the growth of deposit banks led to its transformation from a joint-stock company to a non-profit bank, by pointing out the importance of the re-discounting of bills brought by local and regional banks and the reduction of the proportion of the direct discounting. This means the establishment of a central bank.

On the other hand, Gonjo emphasizes the extension of the loan business and the expansion of the branch network of the BoF, which faced a crisis of profits. According to him, « the positive adaptation of the BoF to the changes of economic and financial conditions », « the political consideration for the renewal of its privilege » of the issue of bank notes, and the handling against the « crisis of the profits », which all occurred after the 1880s, constitute a historical background of the change of the BoF.⁵

Why did these contradictory tendencies in branch business occur? Indeed, like Nishimura has already said, there is a tendency where the both importance of the re-discounting and

the direct discounting are present, because through the development of deposit banks, « as more and more provincial offices of the deposit banks opened, the Banque's own branches came to be deprived of bills, particularly in locations where local banks succumbed to the wave of competition at the end of the century ». This « led to the Banque's branches actively seeking direct contact with business firms », while in « places where provincial banks held out against the deposit banks' competitive pressures, the Banque, rather than expanding direct discounts, re-discounted bills for provincial banks. »⁶

However, in the branch business, there is certainly a phenomenon that we cannot explain only from the point of view of profits. For example, in 1882–1897, most bases were attached to the Avignon Branch (abbr. AB) by the system of « attached towns » (« villes rattachées »), which will be discussed later. Among the rank of outputs and profits of all the branches, the AB is generally positioned as a low class (between 60th and 90th out of 94 branches),⁷ and its business was already in a difficult situation in the 1870s, as we'll see. What are roles of the extension of the loan business in the provinces?

In order to give another approach to this issue, in this study, we will clarify the actions of managers by the analysis of the records that they left, such as proceedings of the board of directors in Paris and Inspection Reports. The research of the branch business is all the more important that the BoF had the remarkable number of branches compared to other European Banks of issue.⁸

1 Management of the Avignon branch (1870–1897)

1-1 An overview of the industrial structure of the Avignon branch

Based on archived report at this period, we can consider that the main sector of the Vaucluse prefecture that includes Avignon is the agriculture. Moreover, it consists of various farm products, and includes typical ones in France. According to the Inspection Report of 1872, main products are grapes, olives, and madder, which are said to be « the wealth of this country ».⁹

We can see a demand in an opinion of the prefectural assembly of Vaucluse. The point is the threat of the competitiveness of Germany, which had been developing at the time:

«The following are the terms expressed in Article 11 of the Francfort Treaty between France and Germany:

“The commercial treaties of Germany with the different States having been canceled by the (French-Prussian) War, the French Government and the German Government

will take [...] the most favored nation treatment. [...] However, we'll except, from the aforesaid rule, the advantages that one of the parties concerned gave or will give States different from following ones: the England, the Belgium, the Netherlands, the Swiss, the Australia, [and] the Russia. [...]"

Judging from this cited article provision, we can consider that France does not actually provide any special advantages to Germany, but only gives the same advantages given to England, Belgium, Netherlands, Swiss, or Russia.

Under this situation, it is easy to understand that in order to survive the emerging competition with Germany, the first duty is to abstain from concluding any treaty. However, what France precisely did was to conclude commercial treaties with five of the nations indicated on the Article 11 of the Francfort Treaty. With this, the Germany enjoyed then the advantages given to these countries. »¹⁰

Given that Germany was developing as an emerging economy by its heavy chemical industry, which should threaten the production of the French dyeing industry, the above opinion indicates that the virtual most favored nation treatment between France and Germany could have attributed disadvantages for the Avignon economy.

Risks that affected the business of the AB are not limited only to the international competition but may also be attributed to the national conditions. First, in the 1870s, « by the disease of the silkworms and of the deceptions of the keepers, the local products were partly abandoned. In addition to this, by the fact that the Japanese and Chinese silk is not sufficiently suitable for the fabrication of the Florences, a part of the weavers gave up their production », even though there was a sign of recovery in the silk industry in that year.¹¹ Second, the production of grapes was damaged by the insect, phylloxera, and this led to the reduction of the production and the acreage for farming.¹²

1-2 The Avignon branch and the Crédit Agricole

First of all, the difficulty of the business consists in its business itself. In 1869-1881, it was the « Crédit Agricole » (abbr. CA), which means a financial institution for the agriculture, that was troubling the AB. This financial institution, which was established in 1861, was also troubling the board of directors of the BoF in Paris during the War. In September 1870, when the « Crédit Foncier », a main real estate bank, asked a loan of 30,000,000 francs for the Bank of France, the amount included a loan of 10,000,000 francs to the CA. As a result of the examination of its balance sheets, the « Comité des livres et portefeuilles », one of the major subordinate institutions to the board of directors the BoF,

agreed to the request of the *Crédit Foncier*, while it called into attention the lack of transparency and the fact that its administrative institution was not separated with the *Crédit Foncier*.¹³

In Avignon also, the management of the CA deteriorated already before the French-Prussian War. The Inspection Report of 1869 emphasized that « the abnormal, fierce, and adventurous management of the CA », which was a main trading partner for the branch, is endangering also the branch management.¹⁴ Moreover, the Inspector of the BoF criticized the ability of the branch Director of the AB by the use of the expressions of « illusory » or « lack of firmness ».¹⁵ Concretely, the Inspector calls into question the fact that the CA has brought, into the AB, bills which the branches of the CA (in Apt, Cavailon and Carpentras) had brought to the CA. That is to say, according to the Inspector, these bills had virtually only two signatures. Moreover, the three other branches of the CA had problems on the « security », because « the Director of the AB could have only incomplete information about the solvency of the drawers, and generally, the board does not have any measures of appreciation. »¹⁶

In 1870, having understood the apprehension of the Government of the BoF, about the business of the CA and its some loans which had not been « supported by some securities »,¹⁷ the Inspector reported on a large reduction of loans of the CA, and proposed more reduction of loans in order to maintain the prudence. According to the Inspector, his opinion was agreed by members of the « Conseil d'Administration » (« Administration board of the branch »).¹⁸ Moreover, the Inspector calls into question the branch's discount of « papier de crédit » (which means accommodation bills), the negligence of information gathering by the Director and the board, the deterioration of the quality of these bills, and the lack of securities. However, in the exceptional situation of the war, the Bank of France considered securities presented by the *Crédit Foncier* to be safe, and approved the discount of bills of the total sum, with deposit of bonds of Paris city and national treasury bonds, from the point of view that the possible bankruptcy of the both banks could damage general interests (« intérêts généraux »).

However, we can see a conflict of opinions between the Inspector and the Director. It is rare that criticism and conflicts like this are described on Inspection Reports. On the other hand, the Director justifies the loans to the CA from the point of view of the prevention of crises. The Director said that if, in total drop in sales, the branch has demanded immediate repayments, the CA should have attached its debtors. And, as a result of the action, the fall of prices and a run on the branch would have happened.¹⁹

The problem of the CA was not over just after the War. Later, the difficulty in solving the problems of the CA and the largeness of the influence are described like the following

phrase:

« [...] The liquidation of the CA has not yet been finished; it had thoughtlessly wasted the credit and led to the creation of the bills of circulation, which had brought about bankruptcies, suspension ». ²⁰

« [...] The CA has committed a guilt of the ruin by developing deals too much, when it must have reduced them on the contrary. » ²¹

1-3 The intensification of international and domestic competition

The period after the War was characterized by the rapid economic development of Germany and the United States (U.S.). This circumstance is reflected in the business of the AB. For example, in the madder sector, German chemical engineers have discovered a product similar to the madder, artificial alizarin, ²² and « the England, Holland, and the U.S., is trying this ». ²³

The AB faced domestic competition. The greatest threat to the AB was a group of deposit banks, which after the War, was developing and straining the total business of the BoF. This fact was not exceptional for the AB as well. For example, the Inspector of 1875 reported on the competition by the « Société Générale », one of the above deposit banks, which « was taking bills on conditions in favor of the business community. » ²⁴ On the other hand, the Société Générale present nothing to the AB, because it did not require the discount on the AB.

Instead, it seemed that the AB found a means for profits in the discount of warehouse warrants. The Inspector emphasized the importance of this type of discount. Although its amount was only of 18,000 francs in 1879, it occupied the majority of the local portfolio in 1872. The collateral consist of the madder and silk. In particular, the former occupied almost all the warehouse warrants in 1872.

Far from winning the competition with the deposit banks, they strained the branch business further, because it was forced to depend on holders of current accounts, who did not live in the branch territory, and bills of bankers of Avignon, who were in a difficult situation:

« It's the holders of external current accounts who bring the best bills; the bankers of Avignon, who have only modest capital, resist, with difficulty, the Crédit Lyonnais, the Société Générale, and even Gaidan & Cie of Nîmes; they (the bankers) are forced to

accept little lucrative conditions or to take a little uncertain bills. However, the current deals look well guaranteed and do not give any risk to the Bank (of France). »²⁵

Although « the discountable material is absorbed by the different societies of credit, the AB does not give up re-discounting at all like the above phrase indicates it. In 1897 also, « the local and regional discounters bring divided bills, but quite often of credit », even though the Inspector considered that these bills must be well controlled.²⁶ Moreover, though main banks did not have to rely on the re-discount to the AB, we can see names of banks, bankers, or discounters on customer lists. This means that the re-discount has never disappeared in the business of the AB.

At the same time, we must not overlook the direct discount, which is executed without banks, bankers, and discounters. We can find different fabricants on the lists: papermakers in the 1880s; a soap fabricant and administrator of the AB, named Palun A., from the 1880s to the 1890s; a sugar refiner, named Verdet Ernest, in 1897. Its bills amount to 167,000 francs, which are well above the sum of the Credit Lyonnais.²⁷

This variety reflects a more difficult situation from the 1880s in Avignon. In 1883, the Inspector reported on the decline of the production of the madder, the silk, and the wine.²⁸ The difficulty has brought about two consequences for the business of the AB. The first was the increase of accommodation bills. According to the Inspection Report of 1883, the borrowers who brought these bills did not have large resources. The second was the increase of bills resulting from agricultural products. However, the discount of warehouse warrants decreased in the 1880s. The above change of the industrial structure is pointed out also in the 1890s.²⁹

The business difficulty has brought about the conflict between the Inspector and the Director of the AB again. In 1893, on the Inspection Report, the Inspector pointed out and criticized the lack of information gathering. The Director said that it was « very difficult » to know exactly the situation of fortunes of very small customers, while the Inspector criticized, with sarcasm, his negligence of the controlling of loans.

« It seems to me that it's difficult for Mister Director to obtain information about customers when it's enough to work a little more. I was able to convince by myself that we could reach a satisfactory result by knocking doors all together. It's all the easier that in the town, there are two staff members (« huissiers »); in the attached towns (« villes rattachées »), there are external current accounts almost everywhere, one staff member (« huissier ») and one live-in auxiliary (« auxiliaire résidant ») [...] like I said it, we can reach a better result, but by taking a little effort. »³⁰

As a result, the Government of the Bank ordered the Director to « supply the lacks which were pointed out and obtain, in the future, more complete and more exact information about the value of the signers which was given to him. »³¹

2 Supplement: Background of the extension of the branch network of the Bank of France

The above extension of the branch network was a phenomenon, which occurred after the 1880s, in particular after the republican Governor, Joseph Magnin, who replaced Ernest Denormandie at the end of 1881. This replacement was a landmark indicating the reinforcement of the intervention of the Republic. After this event, the business of the BoF will be expanded on the whole, the Government of the BoF taking the initiative.

Concerning the extension of the branch network, we can point out two new organizations: attached town and Auxiliary Office. Each organization belongs to a branch. In the former, which until then, has been outside the control of the branch, member staff was send to this town from the branch for the sake of the bills collection, while the latter means a smaller branch similar to the original one in that bills can be discounted in the Auxiliary Office.³² Besides, these organizations do not need its legislation, which, in the case of branches, are necessarily needed for the establishment.³³

Under the Governor, many Directors opposed the large execution of these organizations. A prime example is an opposition of the executive of the BoF in a discussion about the renewal of the privilege of bank note issue at the end of the 19th century. Although in a consequence of the discussion, the extension of the branch network was legalized in 1897, the opposition was so strong that Rothschild, who was the most senior Director, said that he reached the limit of the patience of the BoF.³⁴

In oppositions of the executive except the Government of the BoF, the AB led to have the most attached towns among the branches. If we consider that the AB was ranked in low classes as mentioned above, this measure seems strange.

We can find, in documents concerning other branches, the possibility that the extension was also based on motifs different from the maximization of profits. An example is the prefect of Pas-de-Calais petitions to the Minister of Finance for the creation of a Branch of the BoF in Pas-de-Calais in 1883.³⁵ He sent his letter to the Governor of the BoF and the Minister asked the intention of the BoF. The Governor responded that the BoF would satisfy their demand by the creation of the Auxiliary Office. This office was established in March 1883. A similar case happened in 1885 in the Calais branch, where the Consultative

Chamber of Arts and Manufactures of Saint Pierre-les-Calais petitioned, through a representative of Pas-de-Calais, for the creation of a branch in Calais.³⁶ However, this time, the petition did not immediately lead to the establishment of the branch. The creation was done in 1912.

Concerning concrete local interests, we can see the details on documents about the Auxiliary Office of Arles.³⁷ As a reason for the establishment of the Auxiliary Office, the General Secretariat says that the creation could reduce general interest rates by the business of the BoF, including low-interest loans, in favor of the merchants of Arles. Of course, the note of the Secretariat takes into consideration the profits of the BoF. Besides, an Inspector of the branches points out the effect of the monetary mobilization:

« The local bankers desire that the public sees the Bank (of France) open its counters in Arles: unforeseen demands of capital by their customers, composed mainly of land owners and of tenant farmers [...], oblige them to keep, in a safe, unproductive capital, whose the sum reaches sometimes a hundred million francs. This immobilization will disappear when they will have the faculty of receiving immediately the sum of their presentations (through the discount of bills) [...] »³⁸

There is also an example of the creation in a location where evidently, the increase of profits is not expected. According to a note addressed to the Governor, Pallain, the Government of the BoF was demanded to choose, with the agreement of the Minister of Finance, new Auxiliary Office to establish in 1906. This note considered Abbeville town as an agricultural and commercial center and, so, a hopeful market. However, in reality, this office has always been ranked as one of the lowest-profit offices.

Conclusion

Hence, the branch business of the BoF reflects various demands, including private ones like profits of the BoF itself and local industries. This means that its evolution from being the bank of issue in the 19th century to being the central bank we know today was not a straight line. Rather, the BoF remained an aggregation of various interests. In this sense, we can consider that it was an institution, which was easily influenced by the national interests containing the consistent necessity to calm down crises of the domestic financial market like a central bank and spread its loans in the national market.

References

- 1 This article is based on a part of the following dissertation with additional considerations based on other historic documents which until then, I have not analyzed in the above dissertation. Yuta Takeda, *L'État républicain et la Banque de France après la Guerre franco-prussienne (1870–1897): Fonctions de la banque d'émission dans la société économique moderne*, Thèse pour le doctorat, Université de Rouen, 2018.
- 2 Alain Plessis characterizes this composition as hybrid one. Plessis (Alain), *Histoires de la Banque de France*, Albin Michel, 1998, p. 82.
- 3 Concerning « an active role both in the development of the crises and in the rhythm of the economic growth », see the following work. Plessis (Alain), *La politique de la Banque de France de 1851 à 1870*, Genève, Librairie Droz, 1985, p. 323.
- 4 Concerning the former, see the following work. Leclercq (Yves), *La banque supérieure. La Banque de France de 1800 à 1914*, Paris, Éditions classiques Garnier, 2010, pp. 245–298; concerning the bailout loan for the Comptoir d'Escompte de Paris, see the following work. Hautœur (Pierre-Cyrille), Riva (Angelo) et White (Eugene N.), « Floating a 'lifeboat': the Banque de France and the crisis of 1889 », *Journal of Monetary Economics*, v. 65, 2014, pp. 104–119.
- 5 Gonjo (Yasuo), « La Banque de France et la décentralisation du crédit (1880–1914) », and Lescure (Michel), « La formation d'un système de crédit en France et le rôle de la banque d'émission (1850–1914): approche comparée », Feiertag (Olivier) et Margairaz (Michel) (dir.), *Politiques et pratiques des banques d'émission en Europe (XVIIe-XXe siècle). Le bicentenaire de la Banque de France dans la perspective de l'identité monétaire européenne*, Paris, Albin Michel, 2003, pp. 156–157 and pp. 131–148.
- 6 Nishimura (Shizuya), « The French Provincial Banks, the Banque de France, and Bill Finance, 1890–1913 » *The Economic History Review*, v. 48, Aug., 1995, p. 547.
- 7 Banque de France, *Assemblée générale des actionnaires de la Banque de France: Compte rendu au nom du Conseil général de la Banque et rapport de MM. les censeurs*, Société anonyme d'imprimerie et librairie administratives et des chemins de fer.
- 8 Feiertag (Olivier), « Gouverner une succursale: la Banque de France à Rouen au XXe siècle », Feiertag et Margairaz (Michel) (dir.), *Gouverner une banque centrale au XXe siècle*, Paris, Albin Michel, 2010, pp. 223–224.
- 9 Rapport Inspection de la Banque de France, Avignon (abbr. RIA), 1872; the madder of this country was international merchandise. The market is Mulhouse, Germany, England, Russia, and the U.S., etc. RIA, 1872.
- 10 Archives départementales de Vaucluse, 8M17, Proceeding of the Prefectural Assembly, Extraordinary session of 16th February 1888.
- 11 RIA, 1875.
- 12 Ibid.
- 13 Archives de la Banque de France (ABF), Proceeding of the board of directors (abbr. PBD), 17th September 1870.

- 14 RIA, 1869.
- 15 Ibid.
- 16 Ibid.
- 17 The Government of the Bank consisted of a Governor and two vice Governors, and was an important decision-making institution in the BoF; it seemed that the deterioration of the management of the CA in 1870, was not limited only to its ability, because a particular circumstance was involved in the business. That is to say, the CA used capital of its provincial branches for bonds issued by the Paris city. RIA, 1870.
- 18 The Inspector raised a question about the relationship between the Director and the Administration board of the branch, saying that « Why didn't the members (of the board) who think like this, reject, by themselves, the bills of this type, although the Director couldn't approve them without their approval? ». Ibid.
- 19 Ibid.
- 20 RIA, 1881.
- 21 RIA, 1883.
- 22 RIA, 1873 and 1875.
- 23 RIA, 1873.
- 24 RIA, 1875.
- 25 RIA, 1893.
- 26 RIA, 1897.
- 27 Ibid.
- 28 RIA, 1883.
- 29 RIA, 1891, 1892, and 1893.
- 30 RIA, 1893.
- 31 Ibid.
- 32 ABF, 1069199609/1, Title of the file: « Fonctionnement de la Banque de France ».
- 33 In the board of directors, we can see the opposition against this point. ABF, PBD, 21st May 1885.
- 34 ABF, PBD, 24th October 1896.
- 35 ABF, 106919101/6, Title of the file: « Calais ».
- 36 Ibid.; we can see a similar petition of a representative in a negotiation about the creation of an Auxiliary Office in Landes. ABF, 1069199101/10, Title of the file: « Dax ».
- 37 ABF, 1069199101/2, Title of the file: « Arles ».
- 38 Ibid.

Table: Business of the Avignon branch (1869–1897)

year	Discounted bills (francs)			Discount amount				Rank of the business amount
	on Paris	on Avignon	on branches	on Paris	on Avignon	on branches	Total	
1869	17,291,896	28,392,424	21,419,763	29,233	109,880	56,212	195,325	16
1870	10,105,000	30,080,000	16,873,000	20,542	217,099	53,856	291,497	42
1871	2,211,573	28,041,558	7,842,806	7,499	337,621	34,343	379,463	19
1872	7,666,617	20,149,133	12,287,735	11,057	178,116	58,799	267,972	23
1873	3,659,799	15,458,540	9,671,197	28,967	65,084	27,796	121,848	37
1874	3,960,723	6,527,610	7,493,043	9,654	32,184	20,016	61,854	45
1875	1,932,608	2,254,418	3,674,509	5,141	5,580	11,225	21,946	51
1876	3,543,595	1,031,087	1,602,919	2,129	2,558	3,136	7,823	64
1877	1,074,400	3,334,709	3,641,877	2,732	3,809	4,154	10,695	58
1878	1,256,587	4,091,506	3,595,086	4,388	5,640	4,071	14,099	60
1879	1,152,000	3,224,000	4,684,000	9,912	6,246	2,041	28,199	62
1880	1,087,581	4,354,233	3,659,931	1,618	7,972	7,021	16,611	69
1881	2,296,000	7,491,000	8,291,000	56,053	6,171	25,762	24,120	62
1882	3,663,000	8,792,000	11,152,000	85,149	11,382	36,825	36,942	60
1883	3,226,000	9,030,000	11,932,000	81,206	9,143	32,970	39,093	60
1884	2,297,000	7,068,000	9,166,000	6,799	26,273	31,018	64,090	68
1885	1,326,000	3,726,000	6,081,000	3,662	11,203	14,546	32,536	75
1886	1,662,000	3,631,000	6,432,000	3,740	12,321	14,673	32,947	70
1887	1,542,000	3,185,000	5,631,000	2,641	11,748	14,049	28,438	71
1888	1,487,000	3,226,000	5,339,000	2,333	13,082	12,534	27,949	68
1889	1,576,000	4,962,000	6,138,000	2,616	16,809	14,833	34,258	63
1890	1,811,000	5,698,000	6,067,000	2,428	16,110	11,566	30,104	63
1891	1,612,000	7,334,000	7,356,000	2,287	18,368	12,879	33,534	62
1892	1,215,000	7,225,000	6,390,000	1,556	16,939	10,590	29,085	65
1893	1,410,000	6,355,000	6,815,000	1,398	15,078	10,510	26,986	64
1894	1,777,000	6,687,000	6,932,000	1,846	18,144	11,643	31,633	61
1895	1,564,000	7,069,000	6,562,000	1,403	15,159	9,459	26,021	60
1896	1,412,000	7,336,000	5,738,000	1,229	13,035	7,328	21,592	66
1897	2,733,000	8,715,000	8,204,000	2,163	14,858	9,767	26,788	65

Source: Banque de France, *Compte rendu. op. cit.*, 1870–1898.