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Financing the Railway in France: The Haute Banque between Collaboration and Competition, 1832-52*

ABSTRACT:

This article investigates the role played by trust in regulating two sets of relationships: those between members of the Parisian haute banque on the one hand, and those between the haute banque and the French government on the other. Oscillating between collaboration and competition, the complexity of the relationship between members of the haute banque is best exemplified in the struggle for the railway, which mobilised much of their capital resources in the period 1832-52. Railway construction, which was at the heart of the Industrial Revolution, required such sizeable amounts of capital that bankers had to form consortia and share both risks and profits. What was the role that trust played in the process of selecting partners to do business with? How solid were these alliances of convenience? Within the two decades under consideration, the successive French governments deliberated between taking a liberal approach to industry and adopting an interventionist stance. What impact did these changes have on the haute banque? How did these affect its traditional structure and practices? What effect did these have on the milieu's friendships and feuds? Taking the Rothschild franchise as a case study, this article examines James de Rothschild's collaboration and competition with other financiers of the railway system. It argues that trust was a key business resource in the 1830s and 1840s. Its importance, however, faded in the wake of the 1848 Revolution, which brought to power a government intent on modernising French finance and industry, and which introduced a new protagonist on the financial stage: the French public.

I. "At the beginning was trust": The Cement of the Haute Banque

In the first half of the 19th Century, the world of the Parisian haute banque was small, highly personal and interconnected, representing a small number of prestigious banking and merchant houses.¹ The factor that regulated exchanges, and indeed enabled business to be conducted in the midst of this microcosm was trust, an aspect of business reminiscent of the way in which the stock exchange had started in a coffee shop in 17th Century London. At that time, those who did not settle their accounts were put on a board under

* Paper prepared for the 49. Deutscher Historikertag, Sektion 'Die Börse als Ort von Ressourcenkonflikten im 19. Jahrhundert' held at the Johannes Gutenberg-Universität Mainz, September 26th 2012.

1 See Alan Plessis, 'The Parisian "Haute Banque" and the International Economy in the Nineteenth and Early Twentieth Centuries', in: Youssef Cassis / Philip Cottrell (Eds.), *The World of Private Banking (Studies in Banking and Financial History)*. Farnham 2009, pp. 127-140; Youssef Cassis, *Capitals of Capital. A History of International Financial Centres, 1780-2005*. Cambridge 2006, p. 30, evaluates the number to be "a group of some twenty banking houses".

the heading ‘lame duck’; the exchange expelled people for bad behaviour; and it made the rules for companies that wanted a listing and for individuals involved in trading.² In order to prevent conflicts of interest on the London exchange, companies were not allowed to simultaneously trade on their own books and give advice to clients. The motto became ‘my word is my bond’ and the untrustworthy would not get business.³

In France, meanwhile, the establishment of a stock exchange was the result of a long and convoluted process. The French financial elite was traditionally wary of risk and regarded paper money and modern financial instruments with extreme distrust, a suspicion which had its roots in 1720 when the first attempt to set up a Bourse in Paris had resulted in failure and bankruptcy.⁴ The wariness of the elite endured for decades, so much so that at the end of the 18th Century even the enlightened Comte de Mirabeau, soon to be a figure of the Revolution, dismissed as a “*fantasy*” the plan to issue shares to finance the Parisian water supply system.⁵ A number of times during the Revolutionary turmoil it was even decided that the Bourse be dissolved altogether. Only in 1801 was the Bourse officially recognised by Napoleon, who was intent on organising the French economy in a more rational, modern manner.⁶ At the time, a number of observers referred to trust as an essential element of business. The Marquis de Condorcet, in a phrase often attributed to Napoleon, famously noted that the Bourse de Paris was a “*thermomètre de la confiance publique*” – an indicator of public trust.⁷ The trust that was in question, however, was not only public trust, but the fact that the handful of banking houses trading in the Bourse needed to be able to work as partners and to form syndicates in order to bid on larger government contracts and share risks. In this sense, it can be said that the haute banque was self-regulating, and that trust was instrumental in this mechanism. Apart from being an important indicator of public confidence in the Bourse and a regulator of banking practices, trust was essential for another reason: personal relationships with sovereigns and governments were vital for bankers, merchants and financiers if they wanted to obtain

- 2 Edward Peter Stringham, The Emergence of the London Stock-Exchange as a Self-policing Club, in: Journal of Private Economic Enterprise 17 (2002), pp. 1-19.
- 3 Randal C. Michie, The London Stock Exchange. A History. Oxford 2001, pp. 15-36.
- 4 Antoin E. Murphy, John Law, économiste et homme d’État (Economie et Histoire 2). Bruxelles 2007, p. 281; Charles Dutot, Histoire du Système de John Law, 1716-1720. Publication intégrale du manuscrit de Poitiers (Classiques de l’économie et de la population). Paris 2000.
- 5 Honoré-Gabriel de Riqueti de Mirabeau, Sur les actions de la Compagnie des eaux de Paris. Paris 1786, pp. 3-5. In 1785 he had written a pamphlet denouncing the practice of ‘agiotage’, a speculative practice consisting in keeping some goods in the hope that their price would go up under the effect of inflation. See id., De la Caisse d’Escompte. Paris 1785.
- 6 In 1801 Napoleon still regarded the Bourse with great distrust; the memoirs of François Nicolas Mollien, which recounted a discussion with Napoleon about the Bourse, clearly testify of this wariness: “*I cannot tolerate this industry for whom nothing is sacred, whose behaviour is routinely deceiving and fraudulent, and whose aim is to amass a profit even more immoral than that sought in games of chance*” (p. 262). See François Nicolas Mollien, Mémoires. Paris 1845), pp. 251-262. At the time of the construction of the Bourse building by Brongniard, Napoleon is reported to have said: “*My intention is to have a Bourse built which would reflect the greatness of Paris and the great amount of business transacted there every day.*” See letter dated December 12th 1806 and addressed to A.M. de Champagny, in: Napoléon I, Correspondance, published by order of Napoléon III, Vol. 14. Lausanne 1863, p. 68.
- 7 Jean-Antoine de Condorcet, Œuvres complètes, Vol. 14. Paris 1800, p. 372.

contracts from governments, and especially crucial to transacting sovereign business such as providing loans and issuing bonds.

Nathan Mayer Rothschild's spectacular rise to financial power in 19th Century London clearly illustrated the role played by trust in the business world at the time. In order to secure the trust of the British and Prussian governments during the Napoleonic wars, Nathan arranged the lending and couriering of gold to fund Wellington's army⁸ ahead of the Battle of Waterloo, which sealed his fate as Banker of the British government. Niall Ferguson insinuates that the single greatest advantage that Nathan Rothschild derived from the British victory in Waterloo was not pecuniary, but 'symbolic': the trust of the British government was a precious gain, and it seemed to have been durably earned.⁹ In subsequent years, Nathan Mayer Rothschild would become a familiar figure in the Royal Exchange, which was located a stone's throw away from New Court, the headquarters of the Rothschild bank. Nathan was, indeed, famously seen every day in the Exchange, leaning against his favourite pillar.¹⁰

Meanwhile his brother James had settled in Paris where he had established a merchant-bank. This had been a difficult and painstaking process, as James had to spend several years courting the political and financial elite of Paris and earning their trust before he could even hope to participate in the type of operations in which Nathan was involved in London. In the French capital, he initially faced the competition of bankers and merchants such as the Perrégaux, Perier, Mallet, Delessert and Hottinguer, who had long been established in France.¹¹ Some decades earlier, Perrégaux and Mallet had even been given the mission by Napoleon to set up the Banque de France, which started as a private enterprise.¹² Of Swiss origin, they had lived in Paris for two generations, a distinct advantage when business tended to rely so heavily on personal relationships. The goal Parisian bankers were chasing at the time James arrived in Paris was access to government business. After the Napoleonic wars, it was agreed that the French government would pay 700 billion francs to the Coalition in war reparations, as well as finance the maintenance costs of occupying armies until the reparations had been paid.¹³ The competition between bankers was therefore mainly about which houses would be contracted to take part in these operations. This is the reason in the wake of the Napoleonic wars that the members of the French haute banque vied for the new government's attention. To his brothers, James more than once voiced his frustration about his lack of access to mainstream financial operations in France and his exclusion from important state loans

8 Niall Ferguson, *The World's Banker*. London 1998, p. 94.

9 *Ibid.*, pp. 105-111. – "*The government rather than the Rothschilds was the principal beneficiary of the subsidy and other payments*" (*ibid.*, p. 111).

10 An early reference to the 'Rothschild pillar' was published in *The Leisure Hour. An Illustrated Magazine for Home Reading* XI (1862), p. 347: "*Mr. Nathan Rothschild was a constant attendant on Change every Tuesday and Friday, and for years was in the habit of placing himself at a particular spot with his back to a pillar known to every frequenter of the Exchange as 'Rothschild's pillar'.*"

11 Cassis, *Capitals* (cf. note 1), p. 27.

12 Léon de Lanzac de Laborie, *Paris sous Napoléon*, Tome 6: *Le monde des affaires et du travail*. Paris 1905, pp. 133-145.

13 Pierre-Cyrille Hautcoeur, *Le Marché français au XIX^e siècle*. Paris 2007, p. 171.

in which other banking houses participated.¹⁴ This lasted for a number of years, and it finally took Louis XVIII's accession to the throne, with Rothschild money, for James to be able to report to his brothers: "... with divine help we have broken in and have access to the French Court just as we do to others."¹⁵

The reason why James de Rothschild's 'luck' turned, however, was not only "divine help". Between 1812 and 1817, the youngest Rothschild had spent most of his time networking with the most prestigious houses of the capital, enrolling the help of his brother Salomon, who had moved to Paris temporarily. Already in contact with Hottinguer, Davillier, and Delessert, he increased communications with Laffitte, Greffulhe, Worms de Romilly and Baring.¹⁶ Importantly, he paid regular visits to the Duc de Richelieu, one of the closest supporters of Louis XVIII and his future Prime Minister.¹⁷ As a result he was able, in May 1817, to participate with other banks¹⁸ in a 31-million-franc loan to the municipality of Paris, and crucially, in 1818, to take part in a risky operation involving the takeover of bills issued by Baring and Hope, in order to prevent panic on the Paris exchange.¹⁹ The purchase, which occurred after the Congress of Aix-la-Chapelle,²⁰ was arranged to ensure the orderly payment of the indemnities owed to the occupying armies, and their subsequent withdrawal. From James de Rothschild's point of view, it had one further merit: it sealed his position as a rightful member of the Parisian haute banque and helped him ingratiate himself in the eyes of the Restoration government. Gille would later comment that: "*The Rothschilds were now fully paid members of the Parisian haute banque. They had joined the syndicate which supported the Paris bourse: the importance and financial power of the House were now fully acknowledged.*"²¹

James de Rothschild's initial exclusion from mainstream bond and loan issuing operations in France had one positive outcome: it encouraged him to diversify his activities

14 See for example The Rothschild Archive, London (RAL), James to Nathan, October 20th 1815: "*One must be forever on the run here. In this respect Paris is bigger than London. People live far away from one another, and if one goes to see a minister, one must spend hours in the hall. Very often it is most difficult to control one's temper.*" – RAL, XI/109/4/1/33, James to Nathan, January 20th 1816; RAL, XI/109/6/2/127, James to Nathan and Salomon, April 24th 1817: "*The gentlemen came to see me and since we are planning to live here, I did not want to give myself a bad name with the government who are always saying 'Well, Rothschild is a foreigner' and so I signed a proposal with the four bankers above to take on this loan.*"

15 RAL, XI/109/8/2/86, James to Nathan, November 27th 1817.

16 See for example RAL, XI/109/7/3/62, James to Nathan, July 23rd 1817: "*I shall speak to Laffitte because the Minister has drawn up a contract with him. If I go running to him now and say 'My brother wants to pay interests', he will say 'You have not issued any loans, so I have to do it with Laffitte'.*"

17 Richelieu would later write to the marquis d'Osmond: "*The Rothschilds used to come and see me all the time and we would sit together and chat in German.*" See Richelieu to d'Osmond, July 13th 1818, cited in Bertrand Gille, *Histoire de la Maison Rothschild*, Vol. 1. Geneva 1965, p. 71.

18 André et Cottier, Goupy, Hentsch, and Worms de Romilly. See Ordonnance du Roi du 14 mai 1817, in: *Bulletin des Lois de la République française*, 7.^e Série. Paris 1817, pp. 433-440. Interestingly, James's name is misspelled on the official document as he is referred to as J. M. Rottschild.

19 With Davillier, Hentsch, Périer, Hottinguer and Laffitte. See Gille, *Histoire* (cf. note 17), Vol. 1, p. 73.

20 Two of the Rothschild brothers attended the Congress; this is reportedly when Salomon made the closer acquaintance of Metternich, who would become a long-standing ally in subsequent years.

21 Gille, *Histoire* (cf. note 17), Vol. 1, p. 74. – This echoed Corti's statement about Nathan: "*This*

and in particular to deal, early on, with commodity trading, an activity which did not count the blessing of a sympathetic government among its prerequisites. A versatile and pragmatic businessman, he traded a large volume and variety of commodities in the first five years of his Parisian life, weaving a network of agents and partners in France and on the Continent as a whole.²² In his very first years in France, he traded silk and wine, dealing with well-established businessmen in France (Lyons, Bordeaux, Strasbourg, Marseille) and abroad (Amsterdam, Bergamo). He never gave up this business completely but the bond and loan issuing business took over and after 1818, the balance of his activities tipped towards the latter, up until the point he came to exert a near monopoly over French government finance, issuing seven loans with a nominal capital of 1.5 billion francs between 1823 and 1847.²³ In doing so, the Paris Rothschild house also overtook the London house both in terms of profits and capitals detained.²⁴

Not until the 1830s did James de Rothschild's activities as an industrialist and as a merchant resume with renewed vigour. This was partly due to his investments on emerging markets, in particular the United States. To secure a stronger presence on the cotton market, he had come to the rescue of the Bank of America after Hottinguer's failed attempt to gather enough funds to respond to their appeal.²⁵ Other goods produced in America interested the Rothschilds, in particular tobacco, rice, cereals, and metals, but their trading networks were far more extensive: among the prominent commodities they traded, was copper from Russia, quicksilver from Spain, and coal from Belgium, the latter being essential not only for steel mills, but also as solid fuel for urban centres.

But whilst the business of providing bonds had largely depended upon the Bankers' ability to secure the trust of the Government, the trade of commodities relied, more challengingly perhaps, on the ability to build networks, both symbolically and literally. Indeed agents, couriers, and informers had to be sent to the places where commodities were produced and traded, and formed a finely spun web of contacts and collaborators connected by trust and interest.²⁶ As for the commodities, they had to be transported via ship, on the fast developing canal ways, or on the soon-to-be-built railway networks.

business does not in itself appear to have brought much profit to the firm of Rothschild, but it secured its prestige in the eyes of the British Treasury, and demonstrated to the whole world that in the face of native competition, it had maintained its position as the banker of England." See Egon Caesar Corti, *The Rise of the House of Rothschild*. New York, 1928, p. 206.

- 22 For example silk and organza trading. See Archives Nationales du Monde du Travail, Roubaix (ANMT), 132 AQ 17, Doxat & Divets (Bergamo) to James Rothschild (then in Dunkirk), November 21st 1811; for wine trading ANMT, 132 AQ 19, Moreil et Michaud (Alençon) to JdeR (Paris), January 6th 1816; Lassabathie (Bordeaux) to JdeR (Paris), June 27th 1816.
- 23 Fernand Braudel / Ernest Labrousse, *Histoire économique et sociale de la France*, vol. III: *L'avènement de l'ère industrielle, 1789-1880*. Paris 1976, pp. 364-371, cited in Niall Ferguson, *The Rise of the Rothschilds. The Family Firm as Multinational*, in: Cassis / Cottrell, *World* (cf. note 1), pp. 1-30, esp. p. 5.
- 24 *Ibid.*, pp. 4 et seq.
- 25 In the aftermath of the 1837 panic, the subsequent bankruptcies and the credit crisis. See Gille, *Histoire* (cf. note 17), Vol. 1, p. 294.
- 26 Cassis, *Capitals* (cf. note 1), p. 39.

II. The Early Days of the Railways: A Balance of Financial Powers (1832-42)

The construction of the first railway lines in France was, inevitably, the product of highly collaborative ventures. The first projects involved engineers, bankers and businessmen who, well acquainted with one another, agreed to share risks and profits. Railway construction in France had started rather later than in England and developed at a slower pace. Whilst the Darlington-Stockton railway was completed in 1825 in the North of England, it took another seven years for the first French major railway line, which linked Saint-Étienne to Lyons, to be completed. Nathan Rothschild had shunned investment in railway since its inception, deeming it too risky an enterprise. However, observing how successful this venture had been, he encouraged his brothers on the Continent to become involved. This recommendation did not go amiss and James took an interest in early railway development projects. The success of the Saint-Étienne to Lyons line encouraged him further: within ten years of its opening, the production of charcoal in the mines of the Saint-Étienne area were said to have doubled.

At that time, financing the railway was very much a private affair: the government's involvement was minimal. Indeed, interest in railway construction first came from engineers, who then had to seek sources of finance from bankers and proto-industrialists. The latter paid for the construction of the lines and were fully responsible for the liabilities and risks thereof. They had to apply for the concession of the line, which was the right to build and exploit it, but this was the only part of the process in which the government intervened.²⁷

Consequently, veteran engineers such as Bazaine, Fabre, and Potier played a major part in railway projects;²⁸ others such as Paulin Talabot, future associate of the Rothschilds on the Lyons-Avignon project, were young and ambitious scientists with substantial local interests. They would become the protagonists of the boom des chemins de fer. As the state initially took a back seat, the success of the railway was highly dependent upon the ability of these enlightened engineers to form networks and associate themselves with relevant financiers. One such engineer was St. Simonian and Rothschild employee Émile Pereire, who would become James's greatest rival under Napoleon III. An unverified theory is that it was Parisian Banker Adolphe d'Eichtal, who had been an associate and acquaintance of the Rothschilds, who introduced the Pereire brothers to James de Rothschild.²⁹ The brothers were famously Saint-Simonian and an article published in 1831 by Isaac Pereire, summarised their advocacy of an industrial society that would, in turn, favour social progress. More precisely, they asserted their commitment to the creation of new forms of financial instruments for industrial ventures: *"The new establishment should be considered as a lending and borrowing office when industry will borrow from all capitalists on the most favourable terms through the intermediary of the richest bankers acting as guarantors because the holders of the bons à intérêt, who are the true stockholders of the association, will find an easier and safer investment for their capital"*

27 Georges Ribeill, *La révolution ferroviaire*. Paris 1993, pp. 75-79.

28 For a more detailed account of the engineers' role in the process see *ibid.*, pp. 299-334.

29 The d'Eichtal family was originally from Munich but had set up their Paris branch in the early 19th Century.

without the hazard of individual loans."³⁰ This idea of a 'new establishment', which would eventually become the *Crédit mobilier*, did not materialise immediately but was sufficiently innovative to propel the Pereire and their vision to the forefront of the industrial scene, which would have consequences for years to come. Gradually, the world of the *haute banque* expanded to include engineers and industrialists, who, in some cases, converted themselves to finance: this was not only the case for the Pereires, but also for Prosper Enfantin. This was a further symptom of the industrial Revolution which was now underway: the Revolution required expertise as much as it needed capital, and the frontier between both worlds was no longer opaque.

The success of the first railway line in France sparked the *haute banque*'s widespread interest in the sector, as it was now regarded as a strategic tool for local development. It dispelled the initial anxieties related to factors as varied as the costs incurred by the venture, and the hilly grounds on which the line had to be built, the latter presenting few similarities with the Liverpool to Manchester railway.³¹ It therefore became a priority to build a railway from Paris in order to capitalise on this interest expressed by the political elite and financiers. As long as the railway projects had been confined to smaller lines, local engineers or industrialists had been able to provide the funds necessary to their construction. But the railway mania began when projects requiring large amounts of capital, carrying relatively high risk and with unclear prospects of returns on investment, necessitated the intervention of the *haute banque*. The Paris-Saint-Germain line was an early example of such intervention. Saint-Germain was a preferred place for Parisians to spend their Sundays, and, given its location close to the capital, the line offered a limited challenge regarding construction and costs. It was initially unclear whether it would generate a significant return on investment, although it was assured to attract the attention of the capital's elite. The Pereire brothers sowed the seed of the idea which germinated for three years before they managed to obtain the five million francs required for the construction of the line, as well as the government's permission to proceed.³²

James de Rothschild made his first investment in the line in 1835, taking a 23.5 per cent stake. Considering the costs involved in the construction of the line, Parisian banking houses decided to share risks and form a syndicate for the building works and subsequent exploitation of the line: thus d'Eichtal, Thurneyssen, Davillier and Rothschild all took a stake in the enterprise. The four bankers had known each other for a long time. All, with the exception of Thurneyssen, were regents in the *Banque de France*. Davillier had been a regular contact, agent, and subject of conversation of the Rothschilds ever since James had moved to Paris in the 1810s, and the latter regularly wrote to his brothers about the meetings he had with him.³³ The Paris-Saint-Germain line was therefore a collaborative

30 Isaac Pereire, *Leçons sur l'Industrie et les finances*, prononcées à la Salle de l'Athénée. Paris 1832, cited in Rondo E. Cameron, *France and the Economic Development of Europe, 1800-1945* (The Evolution of International Business 4). London / New York 2000, p. 116.

31 An interesting comparison was made at the time by Alphonse Peyret, *Situation du chemin de fer de Saint-Étienne à Lyon au commencement de 1832, et résultats probables de cette entreprise*. St-Etienne 1832, pp. 22-28.

32 Michael Graetz, *The Jews in Nineteenth Century France from the French Revolution to the Alliance Israélite Universelle*. Stanford, CA 1996, pp. 153 et seq.

33 RAL, XI/109/1/7/31, Amschel to his brothers, December 4th 1814.

venture between long-standing partners, some of them members of a well-established haute banque, others, like the Pereire brothers, who initiated the project, newcomers. Émile Pereire then remarked on James's involvement in the railway at the time: "*The involvement of the Rothschild bank in the railway from Paris to Saint-Germain is not only of great importance for this particular venture, it will also necessarily have a determining influence on the later realisation of all the great industrial undertakings.*"³⁴

The financing came from the syndicate of the four houses mentioned. It was Pereire, however, who became the director of the Company, and it was by law that the project was permitted to proceed. The decree, promulgated by Louis Philippe on 9 July 1835, stipulated: "*The offer put forward by Mr. Émile Pereire to build, at his own risks and at his own expense, a railway to Saint-Germain, is accepted.*"³⁵ Soon after the Paris-Saint-Germain line, which persuaded both financiers and government that railway construction was profitable, James invested in the Paris-Versailles line that enabled visitors to travel to the Château de Versailles, which had recently been renovated. Again, it triggered the economic development of the area. This sealed the success of the French railways and confirmed the interest taken by the haute banque in their construction and exploitation. In both these initial ventures, the capital was entirely divided between a handful of large businesses, which were well established, and well acquainted with one another, and which had broad experience of winning government business. The public did not play any part in the process and the members of the syndicates shared both the risks and the liabilities linked to the venture.

As far as the Rothschilds were concerned, their decision to invest in the railway was often linked to other business or investments. Having invested heavily in the coalmines of South Belgium at the end of the 1830s, de Rothschild frères took shares in the infrastructural projects that supported the success of these investments. For example, James was the President of the 'Société du Canal de jonction de la Sambre à l'Oise', which he had co-funded together with the 'Société générale de Belgique' explicitly in order to bring from Belgium the coal that was needed to heat the homes of the people in Paris.³⁶ Similarly, it was following the purchase of the Mines de la Grand-Combe in the South of France that James turned his interest to railway building in the South of France.

In the South West of France, Rothschild considered an investment in the construction of a line from Bordeaux to La Teste;³⁷ this was planned as a collaborative venture bringing together his usual Parisian associates, on the one hand, and merchants from Bordeaux who were his agents or correspondents, such as the Baour family³⁸ and Félix Lopes-Dubec, on

34 Cited in Melanie Aspey, *Making Tracks. Promoting the Rothschild Archive as a Source of Railway History*, in: Ralf Roth / Günter Dinobobl (Eds.), *Across the Borders: Financing the World's Railways in the Nineteenth and Twentieth Centuries (Modern Economic and Social History Series)*. Aldershot 2008, pp. 3-12, esp. p. 6.

35 ANMT, 132 AQ 77, Statuts de la Société du chemin de fer de Paris à Saint-Germain.

36 ANMT, 132 AQ 1P0035, Société anonyme du canal de jonction de la Sambre à l'Oise.

37 ANMT, 132 AQ 1P0030, Compagnie du Chemin de Fer de Bordeaux à la Teste.

38 James initially corresponded with Pierre Baour (1748-1816) and then with his son, also named Pierre (1778-1850).

the other.³⁹ In April 1838, together with other Parisian bankers, he formed a partnership for the construction of two further lines whose purpose was to bring to Bordeaux the commodities that had arrived from the Dordogne area. Bertrand Gille remarked that the project had been in the making for a long time. Initially met with enthusiasm mostly by local merchants, the project stalled until the Rothschilds took an interest. At this point, other investors began to find it attractive. In this case as in others, the name 'Rothschild' added to the credibility of the venture and served to restore the trust that the milieu of financiers placed in the project.⁴⁰

The capital initially considered for the construction of the two lines amounted to 9 million francs, of which three-fifths would be the Rothschild participation. Soon after this, James suggested that the 'Société générale de Belgique' could participate, which they accepted, agreeing to up to half a million francs.⁴¹ In this example, the project was highly collaborative from its inception: trust, as well as risk, would be shared rather than fought for or contested. After some time, however, the Société Générale enquired why the project had stalled. James replied that he had been discouraged by the fluctuations of the exchange that had occurred in early September and had thus given up the project.⁴² In this case, the Bourse, more than being an indicator of public trust, was a tool used by its players to evaluate the levels of risks, liability, and profitability.

The same year, a similar situation occurred with the South East of France: Paulin Talabot and a group of Marseille merchants tried to attract James' interest in their Avignon-Marseille venture aimed at facilitating the transport of commodities received from the Mediterranean area to the French mainland.⁴³ This business, linked to the business of the docks of Marseille in which James was involved, was another example of the links between capital, trade, and the railways, and put the Rothschilds at the centre of the equation. However, by that time, the financial crisis had spread to the rest of the Continent, and James preferred to put the project to rest.⁴⁴ He thus demonstrated that he was no longer prepared to take sizeable risks if he faced unpredictable conditions at the Bourse. Furthermore, his participation in an ill-fated venture would have carried substantial reputational risk, a risk that was deemed too significant at a time when reputation was such an important factor in keeping a house in business.

In spite of this slowdown in the Rothschilds' railway investments, it is striking that the railway map from the late 1830s to the late 1840s matched that of the ports, where the goods were received from abroad by their agents. Therefore, although the Rothschilds

39 The Lopes-Dubec family were old acquaintances. James first corresponded with Salomon Lopes-Dubec in 1816 over "*une affaire de vin*" (ANMT, 132 AQ 19).

40 The role of 'prestige' lenders in the perception of credit-worthiness (although as applied to sovereign issues) was discussed by Flandreau and Flores. Markets expected this type of lenders to intervene "*if headwinds were faced*". See Marc Flandreau / Juan H. Flores, Bonds and Brands. Intermediaries and Reputation in Sovereign Debt Markets, 1820-1830, in: *Journal of Economic History* 69 (2009), pp. 646-684; also *id.*, Bondholders vs. Bond-sellers? Investment Banks and Conditionality Lending in the London Market for Foreign Government Debt, 1815-1913 (EHES Working Papers in Economic History 2, January 2011), p. 7.

41 Gille, *Histoire* (cf. note 17), Vol. 1, pp. 266 et seq.

42 *Ibid.*

43 ANMT, 132 AQ non coté 183, Correspondance avec Talabot (Nîmes), 1838.

44 Ribeill, *Révolution* (cf. note 17), p. 80.

were not the only bankers or industrialists involved in this venture, they were arguably those who had most to gain from it.

This may explain why during this period, even though competition was evident between the Rothschild group and other Parisian houses, an equilibrium of sorts was reached by the control which other banks exerted on other parts of the railway: a number of consortia divided up between themselves, the financing of the lines. There were famously four groups of investors at that time: James de Rothschild led investments on the North of France railway, in which he was supported by Davillier and d'Eichthal while Laffitte and Blount, were successful in raising finance for a number of lines such as Paris-Rouen and Rouen-Le Havre;⁴⁵ in this endeavour, they relied on British capitals. François Bartholony, helped by a number of fellow Swiss investors, was at the helm of the Paris-Orléans line. The fourth was directed by Paulin Talabot, an engineer rather than a banker, and was supported, once again, by James de Rothschild.⁴⁶

During that time, benefiting from the trust of the Government, James's approach to the Chemin de Fer was characterised by a stance of co-operation with the other Parisian banking houses, sharing profits and liabilities alike. Indeed when he made his proposal for an integrated Ligne du Nord, connecting all the existing, smaller lines, he took the initiative of associating other banking houses with the project. These, predictably, consisted once again of long-term acquaintances: Jacques Lefebvre, the Mallet, Eichthal and Thurneysen.⁴⁷

III. The Second Era of Railway Building (1842-48): the Public invites itself to the Bourse

In spite of these important developments, the railway network remained vastly underdeveloped in France compared with other industrialised countries such as England and Belgium. One of the reasons for this was the lack of interest the Government had so far shown in co-ordinating the railway construction efforts. In addition, the crisis of 1838-1839 had halted a number of railway projects, such as the Lille-Dunkirk line. To offer a stimulus to entrepreneurs, a 'law relative to the establishment of the main railway lines in France' was proclaimed on the 11th of June 1842. This sketched out a map of the railway and created a novel and unusual process to finance its construction: whilst in England, the railway continued to rely on private funds it drew, in France, on a combination of government funding, private investment, and public funds. More precisely, the state bought the land whilst private companies supplied the tracks, the cars, the engines, and were granted a concession for a period of time.⁴⁸ The Government guaranteed a certain level of return

45 Laffitte and Blount would later become James de Rothschild's associates in the Paris-Lyon project. See ANMT, 132 AQ 77, *Traité de fusion entre les Compagnies Laffitte-Blount et la Compagnie de l'Union pour le Chemin de fer de Paris à Lyon*, 29 juillet et 3 août 1845.

46 See for Paulin Talabot's work Hubert Bonin, *Histoire générale de la Société générale, la naissance d'une banque moderne, 1864-1890*. Genève 2006), pp. 25-28.

47 Gille, *Histoire* (cf. note 17), Vol. 1, p. 340.

48 François Caron, *Histoire de l'exploitation d'un grand réseau. La Compagnie du chemin de fer du Nord, 1846-1937*. Paris 1973, pp. 46 et seq.

on the capitals invested. This new interest taken by the Government in the way in which the railway was financed signalled a move from the liberal conception initially adopted, to a situation in which railways were regarded as a public service. Railway construction was still a resolutely capitalist endeavour but it was now to be regulated by the State. This also meant that the Paris to Saint-Germain and Paris to Versailles line companies had succeeded in making railway construction a priority in France.

The French public was taken by the railway and lent its support to its construction by buying shares and bonds. It appears that even the rise in anti-Semitic sentiment that targeted the Rothschilds in the wake of the Damascus affair in the early 1840s, had no significant effect on the French public's willingness to buy into the transport revolution. Although the capital required was considerable and it was the first time that the French people had been asked by private companies to provide such amounts, they subscribed enthusiastically, which was partly due to the perceived reliability of the bond-issuing houses. The participation of the public in the financing of large industrial projects was a novel aspect of the French economy, and signalled a shift towards more modern banking practices, to which the haute banque was not accustomed. Further, it can be seen as a symptom of the Pereire brothers' success in modernising the world of finance: people's savings would come to finance industry, and the public at large would be solicited to achieve this.

Youssef Cassis calculated that at the height of the railway mania in 1845 and 1846, the capital raised by the five largest companies (Nord, Paris-Strasbourg, Paris-Lyon, Lyons-Avignon, and Midi) reached 919 million francs. Of this sum, 225 million were raised by nine key members of the haute banque, including Rothschild, d'Eichthal, Thurneysen, Laffitte-Blount, Bartholony, Hottinguer, Mallet, Fould-Oppenheim, and Gouin. This amounted to almost 25 per cent of the total. The Rothschilds alone provided 51 million (out of a total of 200 million francs) to finance the 'Compagnie des Chemins de fer du Nord', and they had shares in all the most important lines (Creil-Saint Quentin, 50 per cent; Avignon-Marseille, ten per cent; Nord, 25 per cent; Paris-Strasbourg, five per cent; Bordeaux-Cette, Paris-Lyons, Lyons-Avignon). This covered most of the geographical areas where they had industrial and commercial interests, including the import of commodities and the mines.⁴⁹ Railway construction was not only profitable as an investment, but also as an opportunity for the Rothschilds to take part in the control over companies in the long-term, and indeed influence their management: the Rothschilds remained the administrators of the 'Compagnie des Chemins de Fer du Nord' for several decades following the construction of the railway.⁵⁰ They were thus able to exert a wide influence on the way in which the network was run, from the design and conception of the 'Gare du Nord' in Paris to the engineering of the locomotives. Later, they would even buy shares in the 'Société de construction des Batignolles', a company led by Ernest Gouin, their former correspondent in Tours, and the main supplier of locomotives for the 'Chemin de Fer du Nord'.⁵¹ Such examples of vertical integration were manifold and symptomatic

49 Gille, *Histoire* (cf. note 17), Vol. 1, p. 374.

50 Caron, *Histoire* (cf. note 48), pp. 276-280.

51 See Rang-Ri Park-Barjot, *La Société de construction des Batignolles : des origines à la Première Guerre Mondiale*. Paris 1995, p. 51 and *passim*.

of the importance of networks and reputation: the standing enjoyed by a business in the Bourse enabled it to gain further favourable positions on other markets through its ability to form partnerships and gain government contracts. Furthermore, public confidence in such companies ensured both the perennality of their reputation and the success of their ventures when public funds were solicited.

IV. Conflicts in the Bourse in the Wake of 1848: A Quarrel between the Ancients and the Moderns

It was in the wake of the 1848 events that the competition between major banking houses increased. Arguably, the scarcity of resources which had sparked the European revolutions and the subsequent fall of the regime with which the Rothschilds had enjoyed mutual sympathy weakened the position of, the, until that point well-established businesses, and made them more vulnerable. These businesses which for decades had enjoyed the trust of the Orleans family, an essential resource at a time when major infrastructure projects were run on the basis of government concessions, now had to collaborate with a new, sometimes hostile Government.⁵² It was therefore only natural that there was a radical change in the situation after 1848. The Bourse was even closed for a brief period.⁵³

Parisian banks remained deeply involved in railway development during the period of the *Seconde République* and the *Second Empire*, but the composition of the main groups of investors continued to change dramatically in the wake of the Pereire brothers' rise to prominence. The *Crédit Mobilier* was finally created in 1852 by Isaac and Emile Pereire with a remit to provide long-term loans to finance industrial projects, an enterprise with which the Rothschilds disagreed, but to which Napoleon III gave his blessing.⁵⁴ The Pereire's *Crédit Mobilier* idea was resolutely modern: the French middle-classes had enthusiastically supported the railway mania by buying bonds issued by large banking houses; it was now time to mobilise their savings more directly and use them as capital for these industrial investments. The Pereire's scheme presented a shift in banking practices, whereby the middle-classes would become lenders to the Government, in line with their Saint-Simonian ideas.⁵⁵

It is possible that by supporting the establishment of the *Crédit Mobilier*, the new regime wanted to counterbalance the power of the existing *haute banque*, which had been loyal to the Orleans and regarded the *Seconde République* with suspicion or, in some cases, outright hostility. Now competitors to their former employers, the Pereire brothers' new position threatened well-established houses and the two camps started competing against one another. The 1850s were marked by a seemingly unsurpassable conflict between those

52 Gille, *Histoire* (cf. note 17), Vol. 2, p. 55.

53 It shut on the 24th of February and reopened on the 7th of March.

54 Jean Bouvier, *Les Rothschild*. Paris 1967, p. 166: "*L'État fort deviendra l'État-providence de la construction du grand capitalisme. Il poussera aux fusions et aux concentrations. Il existe comme une sorte de complicité entre le prince-président et les deux frères; les trois hommes veulent également faire quelque chose, construire et éblouir à la fois.*"

55 Gilles Jacoud, *Political Economy and Industrialism. Banks in Saint-Simonian Economic Thought*. London 2010.

who supported the Pereire and those who supported the Rothschilds, among whom were François Bartholony and Paulin Talabot. The competition between the former associates increased in the course of the decade, with the Pereire setting up independent projects in both France and Spain. This competition, which Gille called “*a quarrel between well-established people and the ‘newly arrived’*”,⁵⁶ was in reality a quarrel between the Ancients and the Moderns. It was not possible for trust to play the important role it had done previously: the cast had changed and a host of newcomers were storming the scene. There was a new government, new bankers and industrialists, and many new, unknown actors: the public. Ernest Feydeau, a former employee of the Pereire, who was better known to the French for his literary talents, described the difference between these two styles with an anecdote: “*One of the most astonishing things I witnessed during my career as an ‘Homme de Bourse’, is the absolutely hellish din in the midst of which the Baron de Rothschild dealt every day, restlessly, with the most gigantic financial operations.*” Feydeau then went on to describe a procession of brokers, traders, agents, and dealers calling at his office from nine in the morning until the Bourse’s closing time. He continued: “*The Baron de Rothschild was not, like the Pereire, a mere speculator; instead he was a solid, intelligent, and very clever indeed, ‘merchant of capitals’.*”⁵⁷

Eventually the Crédit Mobilier went bankrupt, which many observers interpreted as a final victory of the Rothschilds over the Pereire, a victory of the Ancients over the Moderns. There were, however, limits to this atavism. After the payment of the Franco-Prussian war indemnities in 1871, undertaken by the haute banque, existing financiers started to face the competition of joint-stock banks. These banks, arguably better suited both to the internationalisation of finance and the funding of large industrial projects, would soon end the hegemony of the haute banque over French finance.

V. Conclusion

In the three phases of the haute banque involvement in railway ventures, conflicts and competition focused on a crucial but intangible resource: trust. As demonstrated in this paper, there was a correlation between the amount of trust that existed in the small haute banque milieu and the extent of the conflicts which it experienced.

In the first period, confident and benefiting from the unflinching trust of a sympathetic Government, James de Rothschild adopted a collaborative stance towards other bankers, many of whom were long-standing associates, partners, or agents.

Towards the end of the 1830s, although he initially endorsed projects put forward to him by trusted associates, James eventually became reluctant to pursue such ventures because the financial crisis had made him wary of market fluctuations. The railway projects were, for a while, left to others to pursue. This did not last long, however, and James’s interest in railways was rekindled in the early 1840s. The sheer scale of railway-construction enterprises meant that members of the haute banque shared both the risks and the trust, and an equilibrium of sorts was reached between four groups of financiers.

56 Gille, *Histoire* (cf. note 17), Vol. 2, p. 93.

57 Ernest Feydeau, *Mémoires d’un coulissier*. Paris 1882, p. 317.

In the third period, in the wake of a change of regime and the ensuing political uncertainty, James de Rothschild faced the fierce competition of his former employees and partners, the Pereire brothers, who had formed the Credit Mobilier. To an extent, he had also lost the privileged relationship he had enjoyed under the Orleanist regime: Louis-Napoleon Bonaparte did not hesitate in lending his support to the Pereire's venture, even though this threatened the 'established order'.

James de Rothschild, an emblematic figure of the haute banque, symbolised the complexity of the relationship between the French financiers and the Bourse. French distrust towards the exchange and modern financial instruments led to a situation where one had to rely heavily on personal relationships to win business. At a time when the Government's liberal approach to industrialisation meant that the public were excluded from the process of financing key infrastructural projects, French capitalists formed consortia to share the liabilities and profits which these would entail.

Napoleon III's admiration for the Industrial Revolution in England prompted a phase of greater interventionism and triggered the emergence of new types of banking establishments that raised public capital to finance their activities. The old banking system was shaken and the haute banque's monopoly on French financial operations ended. As the Bourse assumed a greater role in the process of financing industrial projects, conflicts grew.

The 19th Century conflicts surrounding the railway are paradigmatic of the mutations of French finance, and of the relationships between financiers, the Government and the public. The Bourse, a measure of public trust according to Condorcet, was both the theatre where these rivalries were played out, and the catalyst for these mutations.

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