Knowing Sovereigns: Forms of Knowledge and the Changing Practice of Sovereign Lending

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Abstract

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This thesis examines how sovereign lending, i.e. the practice of lending capital to sovereigns, has changed since the early nineteenth century. It tackles this question by investigating how lenders have thought about sovereigns for the past two centuries, focusing on the tools they have used to know and represent them. I argue that there was a critical shift in the early twentieth century in terms of the kinds of knowledge lenders deployed to know sovereigns. This shift differentiates the old sovereign lending from the new. In the old sovereign lending, merchant banking families such as the Rothschilds knew sovereigns through intensely personal relations based on gentility, whereas in the new sovereign lending, joint stock banks, credit rating agencies and international institutions largely came to know sovereigns through statistics. Though difficult to imagine nowadays, the description of sovereigns through quantifiable facts (the original definition of 'statistics') was revolutionary for early twentieth century lenders. Despite constituting the origins of sovereign credit ratings, this key shift has been overlooked in all major studies about sovereign debt. The new sovereign lending rose to prominence from the interwar period to the 1970s and now defines our world.

The identification of this crucial shift is based on the development and application of the concept of *forms of knowledge*. Forms of knowledge refer to enduring ways of knowing and representing the constituent units of the international system used by international practitioners (e.g. diplomats, military strategists, financiers, and international lawyers). Examples of forms of knowledge include, but are not limited to, modern cartography, international treaties, statistics, gentility, and heraldry. The use of this concept is that it leads to a better understanding of how international practitioners and their practices undergo radical changes. In so doing, it provides a firmer empirical grasp on the question of how fundamental discontinuities arise in international relations.

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Before I turn to the important people that have made this DPhil possible, I want to acknowledge the *Fond de Recherche du Québec – Société et Culture* for a generous doctoral grant. I also acknowledge the financial assistance of the Scatcherd European Fund and of the Department of Politics and International Relations (DPIR).

My biggest intellectual debt is to Edward Keene, who supervised my graduate work during the last six years. He has never failed me and was a constant source of encouragement and expertise. Upon my arrival in Oxford in 2010, I was skeptical about the existence of such an academic subject as international relations, let alone a discipline. I also very much disliked history. This thesis is a testament to the influence of Eddie's thought on my own and to how he has overhauled the prejudices I had. He has truly put windows where there were once walls. Close behind him in importance are the first people who taught me what it meant to be a scholar: André-J. Bélanger and Frédéric Mérand. Their undergraduate seminars gave me a profound sense of the nature of intellectual work. With them, I discovered that no matter what happened in life, I had something precious to hang on to: a vocation.

Looking back, I realise that I could not have made a better choice to pursue the study of international relations than to come to Oxford. Its blend of history, normative concerns, and engagement with the broader discipline of IR make it a very special place indeed. The spirit of pluralism which characterises the DPIR was concretely expressed when faculty members gladly provided support along the way. Walter Mattli and Duncan Snidal deserve special thanks for carefully reading and commenting on some of my chapters and papers. Patricia Clavin from the History Faculty also provided insightful comments on my early work. In addition, I was fortunate to spend a few months at Sciences Po in Paris and at the University of Helsinki. In these institutions, I was able to discuss various aspects of this thesis with Jan Klabbers, Martti Koskenniemi, Heikki Patomäki, and Karoline Postel-Vinay. I gladly acknowledge their comments and help.

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During my time in graduate school, I have been incredibly lucky to meet my partner, Claire Vergerio. Together, we have managed to keep holding hands during the tumultuous and beautiful journey of the DPhil. She has been the greatest

safeguard against my intellectual and political complacency, and her love has made my time in Oxford magical. I cannot express in words how much she means to me.

My family has alwas been present over the past few years. My uncles, Bruno Metzger, Eric-Emmanuel Schmitt, and Yann Le Cam have, throughout my life, gone far beyond the call of duty numerous times. Were it not for them, I would not have been able to sign up for a master's degree at Oxford. During the DPhil, our weekends in the Belgian countryside were unfailingly enjoyable and I hope to continue this little tradition in the future. I want to restate once more my gratitude for their support and affection. I am profoundly moved by their generosity. Back at home, I have always drawn on my sister Sibylle's unconditional love. She has been and remains a model of strength for me. Finally, I want to dedicate this thesis to those who taught me what it means to hope, my parents Nathalie Metzger and Robin Bruneau. I am only beginning to understand the extent of the efforts they made for me throughout their lives and I am deeply grateful to them. Cet ouvrage n'est qu'une petite récompense pour leur dur labeur et leur amour.

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Chapter 1. The 'old' sovereign lending and the 'new'

In a letter from 1839, James de Rothschild wrote to his nephews in London, Frankfurt, Vienna and Naples about the project for a Belgian government loan. He suggested 'that one of you… should go to Brussels to make the acquaintance of the new Minister in order to establish a close relationship with him and to tell him that you are [now] prepared to make all the loans and to receive treasury bills.'[1] James' insistence to his nephews that they meet the Minister in person is not a detail, but in fact an instance of a very common way of engaging with sovereigns for lenders at the time.

About sixty years later, in 1898, the Crédit Lyonnais, the largest French bank at the time, produced the following document dealing with the issue of sovereign lending and specifically of various states' credit worthiness.[2] The document is entitled 'Classification of States derived from the Results of their Financial Management.' It contains three categories of states; those whose financial management is of the first, second, and third order. Within the first two categories, states are ranked in order of credit worthiness. Each category is organised in a statistical table containing, amongst other things, the following information: the ratio in percentages between the cost of annual interests on government debt and the annual revenues of the state, the level of spending per capita, information about the state of commerce and agriculture, population, the monetary system, public

[1] Niall Ferguson, *The House of Rothschild: Money's Prophets, 1798-1848* (London: Penguin, 1998), 389.
[2] Archives Historiques du Crédit Lyonnais (AHCL), DEEF 72879/1 (more on this in chapter 6). This specific document was first brought to my attention under a more concise form in Marc Flandreau, "Caveat Emptor: Coping With Sovereign Risk Without the Multilaterals," Discussion Paper, Centre for Economic Policy Research (London, 1998), http://www.cepr.org/pubs/dps/DP2004.asp.

infrastructure, as well as general remarks on the trajectory of states over a number of years. The countries ranked in this document are (in order of credit rating) Germany, Britain, the United States, Russia, Sweden, Finland, Denmark, Belgium, Norway, Switzerland, Transvaal, Holland, Egypt, Japan, Austria, the Dutch Indies, British India, Hungary, Romania, Italy, Chile, Spain, Bulgaria and Rumelia, Argentina, Brazil, Portugal, Greece, and Serbia. The tables also include a number of German Länder and Swiss cantons, subsumed to their respective states.

We are here faced with, on the one hand, a letter from a family bank, the House of Rothschild, explaining how to engage a specific sovereign, and on the other hand, a document systematically rating the credit of sovereigns. These pieces of evidence do not deal with the same countries and do not come from the same time period. They however denote two very contrasting ways of engaging in the business of sovereign lending and of thinking about the international. One constitutes the old sovereign lending and the other, the new. Less than a century separates the periods from which these documents and accounts emanate. How can we understand the shift from the first snapshot to the second? A more illustrated formulation of this question is: What conception of the international constituted, on the one hand, the world described in James de Rothschild's letter, and on the other, the one represented by the Crédit Lyonnais' assessments of sovereigns' credit-worthiness? What made them possible and different?[3]

[3] With the risk of stating the obvious, this thesis' focus on sovereign lending excludes lending to non-sovereign or semi-sovereign entities, as this cannot properly be called 'sovereign lending.' This entails leaving out colonial lending and lending in cases where there is important external control of a state's finances. In the British Empire, colonies borrowed on international capital markets, but their legal status made them completely different from sovereigns at they could theoretically be brought before a British court in case of default. See Olivier Accominotti, Marc Flandreau, and Riad Rezzik, "The Spread of Empire: Clio and the Measurement of Colonial Borrowing Costs," *The Economic History Review* 64, no. 2 (2011): 395–96. On colonial borrowing more generally see P. J. Cain and A. G. Hopkins, *British Imperialism: 1688-2000* (London: Routledge, 2001); Lance Edwin Davis and Robert A. Huttenback, *Mammon and the Pursuit of Empire: The Political Economy of British Imperialism, 1860-1912* (Cambridge: Cambridge University Press, 1986); Niall Ferguson

Sovereign lending, i.e. the practice of lending capital to sovereigns, has been central to modern international relations, as it has served to fund wars, build critical infrastructure, and manage empires. For all these tasks, sovereigns required large amounts of capital that often surpassed national budgets; they therefore had to borrow money. Sovereign debt and the practice of sovereign lending are also core concerns for those studying the global economy, in part because of the historical importance of sovereign debt for global financial markets, which can still be observed up to this day. In this thesis, I will examine how economic actors involved in sovereign lending have thought about sovereigns. The study begins in the early nineteenth century, with the emergence of an international capital market centred on London, and ends with the Second World War.[4] By examining the thought of these economic actors who lent money to sovereigns, this thesis will provide a novel interpretation of how and why the practice of sovereign lending changed since the nineteenth century.

Oddly enough, actors traditionally associated to the economic realm are generally considered to possess and produce nothing that might legitimately be called international political thought. By contrast, the ideas of prominent thinkers such as Grotius have received a great deal of attention, as has the thought of

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and Moritz Schularick, "The Empire Effect: The Determinants of Country Risk in the First Age of Globalization, 1880–1913," *The Journal of Economic History* 66, no. 2 (2006): 283–312. Interestingly, a small institution named the Crown Agents was in charge of the borrowing of Crown colonies; it has received surprisingly little attention. The most recent study is David Sunderland, *Managing the British Empire: The Crown Agents, 1833-1914* (Woodgate: Boydell & Brewer Ltd, 2004). As for settler colonies, it was the Bank of England that was responsible for their debt issues until the late nineteenth century, when they had to turn to overseas banks. The second category of states whose borrowing is excluded from this study are states such as the Ottoman Empire or China, where Western powers controlled large parts of the fiscal administration (in these cases, the Ottoman Public Debt Administration and the Chinese Maritime Customs Service). Prominent imperial and financial historians Cain and Hopkins also consider these types of cases to be different from sovereign borrowers like Brazil or Spain. See Cain and Hopkins, *British Imperialism*, 360.

[4] On the emergence of international capital markets see R. C Michie, *The Global Securities Market: A History* (Oxford: Oxford University Press, 2006), particularly pp. 62–63.

important statesmen such as Woodrow Wilson. A few researchers sometimes venture further to examine the thought of groups of diplomats or even lawyers. To be sure, economic thinkers like Adam Smith are often thrown into the mix of individuals that do think about the international, but no one is really interested in how people who make a living selling guano think about the international, to take an example.[5] These people are quite simply not considered to have any form of thought about the international. And yet, one of the central issues that face sovereign lenders is precisely the question of what sovereigns are and how one might go about knowing them. In fact, the above snapshot of how lenders engaged with sovereigns at the beginning and end of the nineteenth century exposes a stark contrast in terms of how they answered this question.

My argument is that the new sovereign lending is distinct from the old because of the different *forms of knowledge* that lenders use to know sovereigns in both of these worlds. The old sovereign lending was based on intensely personal relations between sovereigns or their representatives, and bankers. The latter managed to establish and maintain these relations in large part by acquiring a crucial form of knowledge, gentility. Gentility referred to a set of manners, tastes and dispositions that were part and parcel of a gentlemanly lifestyle. Merchant bankers, the key actors of the old sovereign lending, relied on this form of knowledge to achieve deep social penetration of political and economic elites. It was a nineteenth century equivalent of the early modern notion of 'courtesy,' a prerequisite to be at the court and to know the sovereign. By contrast to this old world, the new world of sovereign

[5] I am here referring to the prominent nineteenth century merchant bank Gibbs & Sons, which became rich 'selling the turds of foreign birds' as the City ditty went. See James Miller, *Fertile Fortune: The Story of Tyntesfield* (London: National Trust, 2006), 37.

lending is based on statistics. I am here referring to statistics as the description of states through quantifiable facts – the initial definition of the term.[6] In the world of the new sovereign lending, actors such as joint stock banks, rating agencies, and international financial organisations, 'know' sovereigns without personal connections, through quantifiable representations. The different forms of knowledge underpinning these two worlds of sovereign lending reveal a deep shift in how lenders have thought about the sovereigns to whom they lend.

The old world of sovereign lending started declining prior to the First World War, but it held its own deep into the interwar period. The new sovereign lending, on the other hand, emerged slowly from the second half of the nineteenth century onwards, especially after the 1870s. However, even by the late 1930s, when international capital markets were closing and the Second World War was about to break out, the new sovereign lending was far from being dominant. Joint stock banks and credit rating agencies were still marginal actors in sovereign lending. It was only with the re-emergence of international finance in the 1970s that the new sovereign lending came into full force, and that the statistical gaze of the new sovereign lenders took effect.[7]

This argument about a substantive shift in how lenders think about sovereigns has three key implications for our understanding of international finance and international relations more broadly. First, it provides a new take on how sovereign

[6] Theodore M. Porter, *The Rise of Statistical Thinking, 1820-1900* (Princeton, NJ: Princeton University Press, 1986), 23-25.

[7] Two excellent statements on the issue of the re-emergence of global finance are Rawi Abdelal, *Capital Rules: The Construction of Global Finance* (Cambridge, MA: Harvard University Press, 2007); Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994). The novelty of Abdelal's work is that it draws attention to the role of the Organization for Economic Cooperation and Development's (OECD) in the process of breaking down capital controls.

lending has changed. Previous accounts have stressed the continuing relevance of single variables in sovereign lending, for instance reputation, or alternatively, they have emphasised the changing nature of lenders, specifically the shift from merchant banks to contemporary investment banks.[8] A number of others have for their part drawn attention to the changing structure of information in the business of sovereign lending.[9] No study has however examined the changing nature of lenders' thinking about sovereigns. In so doing, my argument reveals a major discontinuity in terms of how lenders have related to sovereigns. At the heart of this discontinuity is a shift from a world dominated by gentility to one dominated by statistics. The argument builds on previous work by emphasising the role of changing actors in this process, but crucially, it points to the central role of lenders' conception of sovereigns, and to education as a critical site to investigate its origins and transformation.

The second implication of this argument is that it provides a new interpretation of the nature of global economic change in the interwar period. Scholars like Barry Eichengreen or before him Karl Polanyi identify a key normative change in the interwar years, pertaining to ideas about the place of the

[8] See Michael Tomz, *Reputation and International Cooperation: Sovereign Debt across Three Centuries* (Oxford: Princeton University Press, 2007). Another recent study by Kenneth Dyson is also broad-ranging and his book is bigger than Tomz's in terms of size (771 vs. 299 pages), however, it can hardly be said to put forward a novel argument and reads more like an interesting historical overview of sovereign debt focusing on three main themes. See Kenneth H. F. Dyson, *States, Debt, and Power: "Saints" and "Sinners" in European History and Integration* (Oxford: Oxford University Press, 2014). On the changing nature of sovereign lenders see Vinod K. Aggarwal, *Debt Games: Strategic Interaction in International Debt Rescheduling* (Cambridge: Cambridge University Press, 1996); Rui Pedro Esteves, "The Bondholder, the Sovereign, and the Banker: Sovereign Debt and Bondholders' Protection before 1914," *European Review of Economic History* 17, no. 4 (2013): 389–407; Albert Fishlow, "Lessons from the Past: Capital Markets during the 19th Century and the Interwar Period," *International Organization* 39, no. 3 (1985): 383–439; Layna Mosley, *Global Capital and National Governments* (New York: Cambridge University Press, 2003).

[9] On changing information structures see Marc Flandreau and Juan H. Flores, "The Peaceful Conspiracy: Bond Markets and International Relations During the Pax Britannica," *International Organization* 66, no. 2 (2012): 211–241; Marc Flandreau et al., "The End of Gatekeeping: Underwriters and the Quality of Sovereign Bond Markets, 1815-2007," Working Paper (Chicago: National Bureau of Economic Research, 2010), http://www.nber.org/papers/w15128.

market in society.[10] For Polanyi, this change was part of what he called the 'double movement' and constituted a re-embedding of market forces in society. For Eichengreen, it was linked to the enfranchisement of the working classes and created major problems for the maintenance of the gold standard. By contrast to Polanyi and Eichengreen's arguments, my claim is that market actors' conception of sovereigns changed; lenders increasingly viewed sovereigns through the prism of statistics, a process heavily intertwined with the development of sovereign credit ratings. The productive power of this new knowledge, i.e. statistics, consisted in redefining what sovereigns were.[11] Statistics supposed that sovereigns' main features could be quantified and presented in the form of statistical tables. By contrast, gentility, the form of knowledge used by the old merchant bankers, still implicitly supposed that the state could be understood as a set of people to whom one should grant confidence, or not. This interpretation suggests that some features which we associate to a dynastic world remained present until the early twentieth century. In this sense, the 'persistence of the old regime' lasted much longer than what most accounts in international relations allow for.[12]

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[10] See Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, 2nd ed. (Beacon Press, 2001); Barry J. Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton, NJ: Princeton University Press, 2008). Related to this period and to the ideas of Polanyi, see John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36, no. 2 (1982): 379–415.

[11] This process has attracted a great deal of attention in recent scholarship. However, most contributions have focused on the last quarter of the twentieth century and its aftermath, generally assuming that it constitutes *the* moment of critical change. See for instance Alexander Cooley and Jack Snyder, eds., *Ranking the World: Grading States as a Tool of Global Governance* (Cambridge: Cambridge University Press, 2015); Kevin Davis et al., eds., *Governance by Indicators: Global Power through Quantification and Rankings* (Oxford: Oxford University Press, 2012); Alain Desrosieres and Emmanuel Didier, *Prouver et gouverner* (Paris: La Découverte, 2014); Sally Engle Merry, Kevin E. Davis, and Benedict Kingsbury, eds., *The Quiet Power of Indicators* (Cambridge: Cambridge University Press, 2015); Richard Rottenburg et al., eds., *The World of Indicators: The Making of Governmental Knowledge through Quantification* (Cambridge: Cambridge University Press, 2015). See also the special issue, *Review of International Studies* 41, no. 5 (2015).

[12] On this question see for instance Arno J. Mayer, *The Persistence of the Old Regime: Europe to the Great War* (London: Croom Helm, 1981).

Third and finally, the thesis develops a specific concept, *forms of knowledge*, which can be of use for many other types of inquiries in international relations and beyond. These forms of knowledge are stable and enduring ways of knowing and representing international actors. They are used by international practitioners (be they lawyers, diplomats or financiers to name but a few) who often have to deal with sovereigns through their activities. The use of such a concept is that it permits an analysis of how groups that do not write lengthy treatises on international relations think about the international. In this case, it allows me to examine how lenders think about the sovereigns to whom they lend. More broadly, I suggest that examining shifts in these forms of knowledge constitutes a critical means of understanding how international practices change, and thus of making sense of fundamental discontinuities in the international system.

As the puzzle and argument make clear, the thesis will answer a constitutive question. This constitutive question is one about what instantiates the old world of sovereign lending and the new,[13] because the two worlds examined here have not been identified in the past. The thesis is thus mainly devoted to explaining what makes these systems of sovereign lending distinct from one another. The explanation will be provided with the use of a concept, a very common type of constitutive explanation.[14] Explaining the properties of a specific system or state of affairs is often considered to be very different from explaining the shift between two systems.[15] And yet, as Wendt explains, 'gaining explanatory leverage on

[13] Alexander Wendt, "On Constitution and Causation in International Relations," *Review of International Studies* 24, no. 5 (1998): 101–18.
[14] Ibid., 110; Richard Reiner, "Necessary Conditions and Explaining How-Possibly," *The Philosophical Quarterly* 43, no. 170 (January 1, 1993): 58–69.
[15] Wendt, "On Constitution and Causation in International Relations," 105–6.

transitions is of course often one of the main reasons that we try to explain properties, and it is here that causal and constitutive theories abut one another […].'[16] Indeed, by explaining what makes the two systems of sovereign lending distinct, one necessarily makes assumptions about the drivers of change that get us from the old organisation of sovereign lending to the new. To this extent, the thesis also offers a type of explanation for the shift from the old to the new sovereign lending based on a property central to both systems.

To be clear, the term 'explanation' as it is used to describe this thesis' goal does not refer to the process of deducing substantive explanations from a theory. In order to explain the shift from the old to the new organisation of sovereign lending, this thesis does not produce a theory that is to be deductively applied. But this is no odd feat as most theoretical explanations in International Relations, even those that claim the contrary, *in fact* rely on theories heuristically rather than deductively.[17] This means, as Humphreys argues, that in most if not all of International Relations scholarship 'accounts of specific empirical episodes are shaped by […] theories' thematic content, but are not inferred from any putative causal generalizations or covering laws.' [18] In this context and to paraphrase Humphreys, substantive explanations 'gain no additional weight from what is a purely rhetorical association' with a theory's deductive arguments. [19] The argument that in International Relations theories are used heuristically undermines the distinction

[16] Ibid., 111.
[17] See Adam R. C. Humphreys, "The Heuristic Application of Explanatory Theories in International Relations," *European Journal of International Relations* 17, no. 2 (2011): 257–77. A number of other contributions, to which Humphreys refers, make a similar point: Emanuel Adler, "Seizing the Middle Ground: Constructivism in World Politics," *European Journal of International Relations* 3, no. 3 (1997): 328–29; Robert Jervis, "Realism, Neoliberalism, and Cooperation: Understanding the Debate," *International Security* 24, no. 1 (1999): 43; Peter J. Katzenstein, "Introduction: Alternative Perspectives on National Security," in *The Culture of National Security* (New York, NY: Columbia University Press, 1996), 26.
[18] Humphreys, "The Heuristic Application of Explanatory Theories in International Relations," 262.
[19] Ibid., 258.

made between social scientific and historical explanation. Indeed, when a theory is used heuristically, explanations are 'generated through empirical or historical enquiry' and the explanatory power therefore 'resides in the ensuing account of the specific episode, not in the theory's quasi-deductive argument.'[20] And these accounts of specific episodes can only be deemed plausible on the basis of good judgement.[21]

The starting point of this thesis is the concept of *forms of knowledge*, developed in chapter 2. Scholars of international relations are now accustomed to analysing the role of knowledge in a host of different issue areas.[22] What I seek to do here is to develop and tighten a concept pertaining to a very specific, and yet central, type of knowledge in international relations. The concept of forms of knowledge refers to stable and enduring ways of knowing and representing international actors used by international practitioners. While there is much work in international political thought about how great thinkers conceptualise international actors, there is comparatively little scholarship on the means people use to know and represent them. A small number of scholars have drawn attention to ways of knowing and representing international actors, but they have unfortunately put insufficient emphasis on the knowledge used by international practitioners. In this chapter, I

[20] Ibid., 268.
[21] Marc Trachtenberg, *The Craft of International History: A Guide to Method* (Oxford: Princeton University Press, 2006), 6. 17, 22, 27, 44; Louis O. Mink, *Historical Understanding* (Ithaca: Cornell University Press, 1987), 81–84. Cited in Humphreys, "The Heuristic Application of Explanatory Theories in International Relations," 269.
[22] It is worth noting that one of the key ways through which knowledge became a legitimate topic of inquiry in international relations is the idea of epistemic community. For seminal statements, see Mai'a K. Davis Cross, "Rethinking Epistemic Communities Twenty Years Later," *Review of International Studies* 39, no. 1 (2013): 137–60; Peter M. Haas, "Introduction: Epistemic Communities and International Policy Coordination," *International Organization* 46, no. 1 (1992): 1–35. On the topic of international finance, economic sociologists have also been concerned with questions of knowledge, though none has dealt with the topic at hand. For an interesting work in economic sociology about financiers' knowledge, see Donald MacKenzie, *An Engine, Not a Camera: How Financial Models Shape Markets* (Boston, MA: The MIT Press, 2008).

define three core properties of these forms of knowledge, and I analyse three examples: modern cartography, international treaties, and heraldry. In the rest of the thesis I use this concept to reveal a significant shift in how money lenders have thought about sovereigns since the early nineteenth century. This is the shift that demarcates the old sovereign lending from the new.

The first part of this thesis analyses the old world of sovereign lending. I begin with a prosopographical account, i.e. the biography of a group, of the key actors in the business of sovereign lending, namely merchant bankers (chapter 3).[23] As it was impossible both because of time and resources to conduct a history of all merchant banks across multiple countries for over a century, this account is based on secondary literature in economic and financial history, as well as on existing biographies of merchant banks. I also consulted the archives of two prominent merchant banks (Rothschilds and Barings). In the chapter, I first present merchant bankers' specific social characteristics pertaining to their origins and outlook and second, I examine their main activities. Merchant banks were families, a fact that researchers often duly note, but whose significance has long been overlooked. Many merchant banking families originated in the German speaking lands of Europe, where they had been court bankers. As a result, they were familiar with courtly life. They were also familiar with the fact of occupying a rather low position in court-centred societies and as a result were keen on acquiring social standing, esteem and respect. In this sense, merchant banking families were at least as much

[23] For a good discussion of the method, see William Clark, "The Pursuit of the Prosopography of Science," in *The Cambridge History of Science: Volume 4, Eighteenth-Century Science*, ed. Roy Porter (Cambridge: Cambridge University Press, 2003), 211–39. See also the contributions in K. S. B. Keats-Rohan, *Prosopography Approaches and Applications: A Handbook*, Occasional Publications of the Oxford Unit for Prosopographical Research v.13 (Oxford: Unit for Prosopographical Research, University of Oxford, 2007).

status-seekers as profit-seekers. Merchant bankers also had distinct sets of activities. Having set up shop in various parts of Europe and constituted networks across the continent, they were central actors in the provision of credit for trade, what were then called 'acceptances.' In fact, they had themselves been tradesmen for quite some time – hence the term *merchant* – and some never gave up this business (which ranged from the sale of guano to trading precious metals). Merchant bankers also played a key role in the management of central banks and in providing financial advice to governments. But the key activity of interest in this thesis is their role as lenders to sovereigns, a business they largely dominated until the era between the two world wars. The question which the last section of the chapter attempts to answer concerns the amount of information about sovereigns' finances that was available to these bankers. The answer is: not very much. Thus the chapter ends with a first puzzle. In the early nineteenth century, merchant bankers lived in a world where they had no reliable information about sovereigns' finances; how, then, did they know the sovereigns to whom they lent?

The following chapter argues that the crucial form of knowledge on which merchant bankers relied to know sovereigns was gentility (chapter 4). Though this may at first appear to be a relatively unsettling argument, it is strongly grounded in the idea put forth by economic and imperial historians that the long nineteenth century was characterised by what Cain and Hopkins call gentlemanly capitalism.[24] To be perfectly clear, I am not arguing that merchant bankers were entirely oblivious to information about sovereigns' finances once it became widespread; they were certainly not numerically illiterate. I am also not arguing that bankers used gentility as a scale to measure credit worthiness. My claim is that the main

[24] The clearest statement remains Cain and Hopkins, *British Imperialism*.

form of knowledge on which merchant bankers relied to know sovereigns at all was gentility. This was due both to the context in which merchant bankers emerged, and to their goals as families. The use of gentility was convenient as both a means of acquiring social status, which these families so desired, and of knowing sovereigns. The first part of the chapter advances the idea that gentility (in previous epochs called courtesy, *courtoisie* or *Höflichkeit*) was a central form of knowledge of the early modern period. It puts emphasis on the centrality of gentility for early modern ambassadors, who were essentially seen as courtiers stationed in foreign courts. The role of this form of knowledge was based on the place of courts in international relations, a feature which persisted formally at least until the mid-nineteenth century. This insight takes root in the now classic work of Norbert Elias, and the more recent contribution of historian Jeroen Duindam.[25] Courts were still central in the first half of the nineteenth century, particularly after the Restoration that followed the fall of the French Empire. It thus made a great deal of sense for merchant bankers to try to acquire gentility, as sovereigns were in many cases still known in person. This is a claim I defend in the second part of the chapter. A key point is that throughout the nineteenth century, Britain, which happened to be the world's financial centre, witnessed the revival of the ideal of the gentleman. Thus to be part of the upper reaches of society, one had to become a gentleman. This was the case even though the court *per se* was not central to political life in Britain. Merchant bankers deployed various strategies to acquire gentility. They attended specific institutions of higher education (public schools and/or Oxford or

[25] Norbert Elias, *The Civilizing Process* (Oxford: Blackwell, 1994); Jeroen Frans Jozef Duindam, *Vienna and Versailles: The Courts of Europe's Major Dynastic Rivals, 1550-1780* (Cambridge: Cambridge University Press, 2003). Another important work focusing on protestant courts is Miloš Vec, *Zeremonialwissenschaft im Fürstenstaat: Studien zur juristischen und politischen Theorie absolutistischer Herrschaftsrepräsentation* (Frankfurt am Main: Klostermann, 1998).

Cambridge in the case of Britain), married into the aristocracy, and sought titles of nobility and country estates. Not only did gentility allow merchant bankers to know sovereigns, it was key to gain esteem, respect, and social status. This was how the old sovereign lending, which persisted far into the interwar period, functioned.

The second part of the thesis examines the new sovereign lending. It begins with an account of the rise of new lenders in the latter half of the nineteenth century, until the interwar period (chapter 5). The key point I want to make about these new lenders is that they were outsiders in the business of sovereign lending. By comparison with merchant bankers, they could not count on their high social standing and international networks to know sovereigns and engage in the business of sovereign lending. For the most part, these new sovereign lenders were joint stock banks with limited liability. In most of Europe, the period from the 1850s to the 1870s was the real turning point for the emergence of these new banks. Prior to this, banks were partnerships composed of a very small number of individuals. In England for instance, the maximum number of partners in a bank was six persons. In addition to these new lenders, new actors emerged which were not directly lending: rating agencies and an international institution, the League of Nations. Both these types of actors were involved in approving or rating sovereign bond issues, and so they had to know sovereigns. The chapter thus ends by asking what type of knowledge the new lenders used to know the sovereigns to whom they lent.

In the next chapter, I argue that the key form of knowledge on which the new lenders relied was statistics (chapter 6). I am here referring to the original meaning of statistics (*Statistik*), a German discipline which consisted in the description of states through quantifiable facts. Although this appears to be a very

intuitive practice, it is a relatively modern one. In this chapter, I first start by outlining the history of this form of knowledge and its gradual dissemination in the developing public sphere. The discipline was part and parcel of a new way of thinking about the international which described international actors as 'powers' (small, middle, and great). Statistics was developed as a science that assessed states' power. Between the eighteenth and nineteenth century, the information that formed the basis of statistics became increasingly public, whether it was through journals and other publications or because of the many statistical bureaus created across the world. Though the official discipline of statistics declined in the early nineteenth century, its basic tenets were on the contrary adopted in a multitude of other academic fields, such as geography. The second section of the chapter puts forth the argument that a key element in the transmission of this form of knowledge to the new lenders was education, as it was for gentility and the old lenders. Business schools were key players in this process. Many emerged in the last third of the nineteenth century and avidly taught statistics to their future graduates. The final section illustrates how graduates of business schools and economics departments trained in statistics went on to work in joint stock banks, rating agencies, and the League of Nations. Relying on bank archives, I shed light on how the Credit Lyonnais, the biggest bank in the world by 1913, produced the first financial rankings of sovereigns in 1898. I then briefly examine the examples of Moody's, a rating agency which started rating sovereign bond issues in the interwar period, and the League of Nations' understudied Economic and Financial Organisation (EFO).

The last chapter concludes by underlining the central empirical finding brought out in this thesis, namely the shift in how lenders know sovereigns. It further highlights

three key implications. The first is a new interpretation of how and why the practice of sovereign lending changed since the nineteenth century, from a reliance on gentility to the use of statistics. The second pertains to the nature of the economic changes experienced during the interwar period, which have captivated so many scholars, from Karl Polanyi to Barry Eichengreen. The third implication is theoretical and stems from the concept of forms of knowledge developed in the thesis. Here, I suggest that the concept charts a new method to study discontinuities in the making of the international system. On this basis, I outline precise avenues for future research.

Chapter 2. Forms of knowledge and international relations

The question of how people 'think about' sovereigns, or to use a broader term, international actors, has been central to a great deal of work on international relations, particularly in debates about the construction of international systems and about fundamental change within the system. In other words, the main question here is who are the actors that have been considered constitutive of the international system in different epochs? The shift from the medieval conception of sovereigns as persons to the modern idea of sovereigns as abstract entities occupies a particularly important place in this debate.[1] This change is certainly considered one of the most defining moments for modern international relations, as it signals the emergence of a system of sovereign states.[2] Such conceptual shifts have become critical objects of study, in part because they tell us something very important about systemic change in international relations. They notably underline the importance of ideas and more specifically, of international political thought.[3]

There have been two key approaches to this question of how people have historically thought about international actors. One line of inquiry has largely focused on the role of great thinkers' conceptions of international actors. The issue

[1] Hedley Bull, *The Anarchical Society: A Study of Order in World Politics* (New York, NY: Columbia University Press, 2002), 245, 254–55, 266, 275; Edward Keene, *International Political Thought: An Historical Introduction* (Cambridge: Polity, 2005), chap. 4; Andreas Osiander, *Before the State: Systemic Political Change in the West from the Greeks to the French Revolution* (Oxford: Oxford University Press, 2007); John Gerard Ruggie, "Territoriality and beyond: Problematizing Modernity in International Relations," *International Organization* 47, no. 1 (1993): 139–74; Martin Wight, *Power Politics* (London: Leicester University Press, 1995), 23–26.

[2] For criticism see e.g. Edward Keene, *Beyond the Anarchical Society: Grotius, Colonialism and Order in World Politics* (Cambridge: Cambridge University Press, 2002).

[3] For a different view see Hendrik Spruyt, *The Sovereign State and Its Competitors: An Analysis of Systems Change* (Princeton, NJ: Princeton University Press, 1996).

is that the impact of their thought has often been assumed away rather than empirically examined. A classic example of this approach is found in Hedley Bull's writings, where he exposes the shift from a Christian international society to a European one, which then expands to the whole globe.[4] These eras are largely based on the thought of various international legal and political theorists, from Samuel von Pufendorf to James Lorimer, which are then briefly 'verified' with a few empirical examples.[5] In this type of account, it is relatively unclear how shifts in great thinkers' thought matter in practice, in other words, how they are translated to the world of practitioners such as diplomats, international lawyers, military strategists, and financiers.[6]

A second line of inquiry has focused on how certain groups of practitioners, particularly lawyers, think about international actors. A good example of this can be found in Martti Koskenniemi's study of the rise of international lawyers in the late nineteenth century, in which he identifies some of their important ideas about sovereignty.[7] This approach presents obvious strengths because it takes into account the thought of a greater number of people who are actually involved in international relations. And yet, there remains an important problem with this type

[4] Bull, *The Anarchical Society*, 26–38.
[5] Ibid., 38–44.
[6] A somewhat auxiliary point to make here is that scholars who study great thinkers to understand how international systems are constructed have tended to privilege the most intellectual aspects of their writings, as opposed to their more practically-oriented treatises. For instance, scholars might precipitate themselves to read Locke's classic *Two Treatises of Government*, when his international thought is arguably better understood by reading his *Fundamental Constitutions of Carolina.* This statement underlines that great thinkers are often practitioners of sorts, but that the practical dimension of their activity is routinely overlooked. Thus the issue at hand is not only the undue emphasis put on great thinkers, but also the overwhelming attention paid to their grand ideas, the most clearly 'intellectual' aspects of their works. For an interesting exception regarding Locke, see David Armitage, *Foundations of Modern International Thought* (Cambridge: Cambridge University Press, 2012), chaps. 5–7. See also the discussion in Kimberly Hutchings et al., "Foundations of Modern International Theory," *Contemporary Political Theory* 13, no. 4 (2014): 398–401.
[7] Martti Koskenniemi, *The Gentle Civilizer of Nations: The Rise and Fall of International Law 1870-1960* (Cambridge: Cambridge University Press, 2004), chap. 1. For a similar approach, see Keene, *Beyond the Anarchical Society*, chap. 3.

of work, which is that it offers no tools to study groups of people who do not write down their ideas in long treatises, articles, or pamphlets about the international. This issue is at the heart of the present thesis which is concerned with how lenders think about international actors.

This bias in favour of ideas is present both in approaches dealing with great thinkers and in those studying practitioners, because they both accept the silent assumption that ideas are ontologically prior to practice. In this view, ideas are slowly disseminated and practitioners come to internalise them, thus changing how they act and the very nature of international relations. However, it is not at all clear whether the ideas that are held responsible for specific features of international systems in fact precede practice. There is a strong theoretical and historical case to be made for the argument that individuals are not simple norm followers, or what is sometimes called *homo sociologicus*, but that they act to respond to practical problems, based on acquired practical knowledge. This is the position that has been carved out by scholars proposing a practice turn in international relations (more on this later).[8] In this light, ideas can sometimes appear as *post hoc* rationalisations of practices that precede them.

In this chapter, building on the practice turn I explore an alternative path to grasp how people think about international actors and how this leads to change in international relations. It consists in examining international practitioners' knowledge. In other words, my starting point is the forms of knowledge that individuals who are in fact involved in international relations rely on to know and

[8] For a theoretical statement about the logic of practice (drawing heavily on Pierre Bourdieu) see particularly Emanuel Adler and Vincent Pouliot, eds., *International Practices* (Cambridge: Cambridge University Press, 2011); Vincent Pouliot, "The Logic of Practicality: A Theory of Practice of Security Communities," *International Organization* 62, no. 2 (2008): 257–288.

represent international actors. In a sense, this leads us away from the question of how people 'think about' international actors and replaces it with the question of how people 'know' international actors.[9] Examples of forms of knowledge used to know international actors include, but are not limited to, international treaties, modern cartography, statistics, gentility, and heraldry. They all share three core properties, explored and illustrated in this chapter. By examining the changing forms of knowledge that international practitioners use, my contention is that it is possible to reach a better understanding of how international practitioners develop and how international practices, such as diplomacy, war or sovereign lending, change. In turn, this can reveal a great deal about how, why and when, specific features of the international system emerge.

The chapter unfolds in three parts. The first section deals with the question of what it means to study how people 'know' international actors. It notes the lack of attention in previous contributions to international practitioners' knowledge and claims that one crucial way of studying it consists in examining their education. This is the first claim of the chapter. The second section is intended to tighten the idea of what it means to know an international actor through concept formation. To this end, it develops the concept of *forms of knowledge* which guides the inquiry in the rest of the thesis. I outline its three key properties and explore three examples of forms of knowledge (modern cartography, international treaties and heraldry). In so doing, I identify liminal cases which are not forms of knowledge, and also briefly outline a number of critical payoffs that stem from the study of these forms

[9] In this sense, my inquiry is much more specific than work on epistemic communities, as it focuses on a very particular kind of knowledge. Indeed, the key point here is to tighten and clarify our conception of a type of knowledge that is absolutely fundamental to systemic international change.

of knowledge. The last section concludes by summing up the key implications of the concept that will guide this thesis' inquiry.

I. Knowledge and international practitioners

A Foucauldian tradition

This idea that knowledge is relevant for our understanding of the construction of international systems is not novel.[10] A little over two decades ago, Jens Bartelson foregrounded his analysis of changing conceptions of sovereignty in a study of large-scale epistemic shifts, that is, shifts in ways of knowing the world. He thus identified three epochs of sovereignty based on epistemic changes: the Renaissance, the Classical Age, and Modernity.[11] Each of these, Bartelson claims, contains a specific arrangement of knowledge and sovereignty.[12] The Classical Age is for instance defined by *mathesis universalis* (a phrase that may leave some confused rather than enlightened), a 'general science of order based on first order principles applicable to any domain of objects – or rather being that which constitutes objects as well as domains of knowledge.'[13] This specific epistemic arrangement, drawn from the works of Descartes and Bacon, is in his view what gives rise to the

[10] Dating back to the same time period, another famous strand of work has made the claim that specific communities with a claim to authoritative knowledge (epistemic communities) shape international policy coordination and the way in which state interests are articulated. On epistemic communities see Haas, "Introduction"; Cross, "Rethinking Epistemic Communities Twenty Years Later." By contrast, my aim here is not to show *that* knowledge matters, or that specific communities matter because of authoritative claims to specific kinds of knowledge. My goal is to outline the contours of a specific type of knowledge which is of central relevance to the construction of international systems and to international relations.

[11] The latter two are strikingly reminiscent of Foucault's own dissection of time in his *Madness and Civilization* as well as in *The Order of Things*. See Michel Foucault, *Les mots et les choses: une archéologie des sciences humaines* (Paris: Gallimard, 1966); Michel Foucault, *Histoire de la folie à l'âge classique* (Paris: Gallimard, 1999).

[12] Jens Bartelson, *A Genealogy of Sovereignty* (Cambridge: Cambridge University Press, 1995), 7.

[13] Ibid., 144.

discourse of reason of state and to the analysis of state interests that defines the Classical Age.[14]

The key point of Bartelson's approach is that in order to deal with the question of how international systems are constructed, he does not discuss a shift in ideas, but instead emphasises a shift in the epistemic commitments that shape how humans look at the world and 'know' it. Though at times he suggests a relation of co-constitution between knowledge and sovereignty, for instance when he says that 'sovereignty and knowledge implicate each other logically and produce each other historically' he subsequently attributes priority to knowledge on multiple occasions, when for instance he claims that 'what exists is a function of what is knowable, and not conversely.'[15] If Alexander Wendt has made a strong case for shifting the focus to ontology in the study of international relations, Bartelson certainly privileges epistemology.[16] But Bartelson's leap from *mathesis universalis* to the development of reason of state and the 'analysis of state interests' is intriguing, as he does not trace the empirical links between this great epistemic shift and the development of the new practical knowledge that allegedly changed international relations. It is therefore not at all clear whether there are any links (constitutive or causal) between *mathesis universalis* and the analysis of state interests that characterises the Classical Age. As a result, Bartelson ends up

[14] Ibid., 156–57.
[15] Ibid., 5, 71.
[16] I should make it clear that, following Ian Hacking, I do not find it necessary to attribute priority to either epistemology or ontology. On the links between epistemology, ontology, and methodology, see Ian Hacking's notion of 'style of reasoning' taken, by his own admission, from the work of A. C. Crombie – though people like to link his concept to Ludwik Fleck's idea of *Denkstil*. See Ian Hacking, *Historical Ontology* (Cambridge, Mass; London: Harvard University Press, 2002); Alistair Cameron Crombie, *Styles of Scientific Thinking in the European Tradition : The History of Argument and Explanation Especially in the Mathematical and Biomedical Sciences and Arts* (London: Duckworth, 1994); Ludwik Fleck, *Genesis and Development of a Scientific Fact* (Chicago: University of Chicago Press, 1981). For an interesting recent discussion of the relation between epistemology, ontology, and methodology in the context of IR, see J. Samuel Barkin and Laura Sjoberg, "Calculating Critique: Thinking Outside the Methods Matching Game," *Millennium - Journal of International Studies* 43, no. 3 (2015): 852–71.

imposing a new periodization of the construction of the international system imported from the history of human sciences because his main object of focus is the succession of epistemic arrangements, rather than international relations themselves. Indeed, the distinction between a 'Classical Age' and 'Modernity' seem to be taken directly from the work of Foucault on the history of human sciences. I want to suggest here that one might develop more novel and unsettling insights into the construction of the international system by setting out to study concrete types of knowledge actually used in international relations, instead of great epistemic shifts. In this respect, John Ruggie's approach to the construction of international systems provides a better starting point.

A year or two before Bartelson's study, John Ruggie, relying on Michel Foucault's idea of *epistémè*, pointed to the importance of what he called *social epistemes* in understanding fundamental discontinuities of the international system. He defined social epistemes as 'the mental equipment that people drew upon in imagining and symbolizing forms of political community' or yet still 'the mental equipment by means of which people reimagined their collective existence.'[17] Ruggie was here referring to something quite broad and all-encompassing, not merely confined to economic or political life. And indeed, analysing the shift from medieval to modern conceptions of territoriality, Ruggie identified single point perspective, the representation from 'a single point of view, the point of view of a single subjectivity,' as the central feature of a new social episteme.[18] But as he himself

[17] Ruggie, "Territoriality and beyond," 157, 169.
[18] Ibid., 159, 169.

accepted, this episteme did not 'act as some ethereal *Zeitgeist* but through special social carriers and practices.'[19]

It is from this point that I would like to pick up Ruggie's analysis. Ruggie's argument here is interesting for two reasons. First, he shifts attention away from the canons of international thought and towards social thought in a broader sense, avowedly drawing on French social theory's concern with *mentalités collectives*.[20] In addition, he does not focus on large-scale shifts in 'epistemic arrangements' as Bartelson does, but instead examines a much more practical ('how-to') type of knowledge. This lays an important foundation for studies of the construction of international systems based on knowledge. And yet, in Ruggie's analysis of the transformation of territoriality, the leap from single point perspective to modern territoriality is rather impressive, to the point of being strikingly reminiscent of the leaps made by accounts that for instance, move seamlessly from Vattel's writings to the emergence of contractual international law and multilateralism.[21] While single point perspective must indeed have brought about a number of immediate changes in painting and in visual representations of the world, it is not entirely clear how or even why it led to modern conceptions of territoriality. The question to ask here is whose knowledge ought to be examined to understand how international systems are constructed? The answer, I argue, is international practitioners' knowledge.

[19] Ibid., 169.
[20] Ibid., 157.
[21] See Christian Reus-Smit, *The Moral Purpose of the State: Culture, Social Identity, and Institutional Rationality in International Relations* (Princeton, N.J.: Princeton University Press, 1999), 132–34.

The 'practice turn', background knowledge, and education

In recent years, a growing amount of scholarship across different disciplines has drawn attention to the centrality of practitioners in international relations. These may be international lawyers, diplomats, military strategists, financiers and the like. What these recent studies do is to remind us of the simple yet crucial point that international relations are to a great extent what international practitioners do. Though the study of practices such as diplomacy or balancing have long been key elements of research on international relations,[22] the little attention previously paid to practitioners is indeed perplexing.[23] Two strands of work have pushed in this direction. On the one hand, there are those who have called for a 'practice turn' and on the other, scholars who have drawn on social and cultural history to analyse the development of the international system and of its institutions, such as diplomacy and war. The former group has put great emphasis on making a theoretical case for practice, from reinstating the logic of practice against the classic opposition of the logic of consequences and appropriateness,[24] to arguing that change is something that happens every day 'in and through practice,' as the phrase goes.[25] Those

[22] For a similar point see Erik Ringmar, "The Search for Dialogue as a Hindrance to Understanding: Practices as Inter-Paradigmatic Research Program," *International Theory* 6, no. 1 (2014): 1–27. For studies about the practices of war, balancing, and diplomacy, see e.g. Sibylle Scheipers and Hew Strachan (eds.), *The Changing Character of War* (Oxford: Oxford University Press, 2011); Michael J Sheehan, *The Balance of Power: History and Theory* (New York: Routledge, 1996); Adam Watson, *Diplomacy: The Dialogue between States* (London: Routledge, 1991).

[23] Neumann makes a similar point about the study of diplomacy, see Iver B. Neumann, "The English School on Diplomacy: Scholarly Promise Unfulfilled," *International Relations* 17, no. 3 (2003): 341–69. For recent exceptions about diplomacy and international law, see Mai'a K Davis Cross, *The European Diplomatic Corps: Diplomats and International Cooperation from Westphalia to Maastricht* (Basingstoke: Palgrave Macmillan, 2008); Markus Mösslang and Torsten Riotte, eds., *The Diplomats' World: The Cultural History of Diplomacy, 1815-1914* (Oxford: Oxford University Press, 2008); Koskenniemi, *The Gentle Civilizer of Nations*.

[24] See e.g. Ted Hopf, "The Logic of Habit in International Relations," *European Journal of International Relations*, 2010; Pouliot, "The Logic of Practicality." The classic text on the opposition of logic of consequences and a logic of appropriateness is James G. March and Johan P. Olsen, "The Institutional Dynamics of International Political Orders," *International Organization* 52, no. 4 (1998): 943–69.

[25] For earlier practice-theoretic approaches in IR see Hopf, "The Logic of Habit in International Relations"; Peter Jackson, "Pierre Bourdieu, the 'cultural Turn' and the Practice of International History," *Review of International Studies* 34, no. 1 (2008): 155–181; Iver B. Neumann, "Returning

drawing on social and cultural history have spent more time actually analysing crucial groups of practitioners, such as international lawyers and diplomats, in order to understand how international relations have changed over entire epochs.[26] I take no issue with any of these contributions and in fact am very much in agreement with what I see as two highly compatible approaches to the study of international relations. Indeed, both strands of work are deeply interested in how practitioners think and act, and how this relates to the changing nature of key international practices and ultimately, of the international system. They thus leave us with a key point which is that to understand how international practices and international relations change, it is absolutely critical to understand who the practitioners one is interested in are.

In the next paragraphs, I develop a specific line of argument regarding how one might go about analysing the development of international practitioners, so as to understand how key international practices change over long stretches of time. My starting point is the idea of 'background knowledge' developed by Emanuel Adler and Vincent Pouliot, which is itself based on a number of pre-existing similar philosophical and sociological concepts.[27] In one of the most prominent statements

Practice to the Linguistic Turn: The Case of Diplomacy," *Millennium - Journal of International Studies* 31, no. 3 (2002): 627–51. For a different take see Christian Bueger and Frank Gadinger, "The Play of International Practice," *International Studies Quarterly* 59, no. 3 (2015): 449–60.

[26] For a similar statement see Edward Keene, "The English School and British Historians," *Millennium - Journal of International Studies* 37, no. 2 (2008): 381–93. For two excellent examples that examine international lawyers and diplomats over about a century see respectively Koskenniemi, *The Gentle Civilizer of Nations*; Mösslang and Riotte, *The Diplomats' World*. For an example of a more contemporary study, see Iver B. Neumann, *At Home with the Diplomats: Inside a European Foreign Ministry* (Ithaca, NY: Cornell University Press, 2012).

[27] The notions of 'habitus,' 'background,' and 'unthought,' developed respectively by Pierre Bourdieu, John Searle and Pierre Schlag, are but a few examples of ideas similar to this notion of 'background knowledge'. See Pierre Bourdieu, *Le sens pratique* (Paris: Editions de Minuit, 1980), 88–89; Pierre Schlag, *The Enchantment Of Reason* (Durham: Duke University Press, 1998), 70–77; John R. Searle, *The Rediscovery of the Mind* (Cambridge, MA: MIT Press, 1992), 175–96. I thank Sahib Singh for pointing out the work of Pierre Schlag.

of their position, these authors recognise that 'there is no such thing as *the* theory of practice but a variety of theories focused on practices,'[28] and yet, they identify some common features of practice-based approaches, among which one finds 'background knowledge.' From the standpoint of practice theories, 'practice rests on background knowledge, which it embodies, enacts and reifies.' [29] This background knowledge is oriented towards practical ends, and it precedes practice.[30] Practices performed by groups of individuals (e.g. war) – which is to say nearly all international practices – are understood as being 'both structured and acted out by communities of practice' that share background knowledge.[31] In this light, background knowledge thus appears as a crucial cog in the shaping of international practices.

One implication stemming from this observation is that by studying international practitioners' background knowledge over long time periods, we can better understand how these practitioners develop as well as how and why key international practices, which are structured by background knowledge, morph.[32] This point, though it has been acknowledged,[33] has somewhat puzzlingly not been taken up, and there are accordingly no major studies yet regarding the changing

[28] Adler and Pouliot, *International Practices*, 5.
[29] Ibid., 8.
[30] Ibid.
[31] Ibid., 9.
[32] It is worth noting here that those of us interested in practice can only access the past through text. As a result, even scholars relying on practice theory have to fall back on methods such as prosopography and discourse analysis when examining distant time periods. See the remarks in Peter Wilson, "The English School Meets the Chicago School: The Case for a Grounded Theory of International Institutions," *International Studies Review* 14, no. 4 (2012): 587. Oddly enough, a recent article by Christian Bueger which deals with the role of knowledge in practice theory fails to pick up on this key question. See Bueger and Gadinger, "The Play of International Practice."
[33] Adler and Pouliot, *International Practices*, 24. It is particularly noteworthy that the authors single out the critical task of 'exploring the background knowledge that makes rationality and strategic practice' possible, and that they accordingly posit that 'rationality is "located" not only in people's heads but also in an evolving backdrop of knowledge.' In one sense, this thesis is precisely investigating the background knowledge that make rationality and strategic practice possible, in the context of sovereign lending.

background knowledge of international practitioners. The first point I wish to make here is that a key place to look for such shifts in background knowledge is education. It is highly surprising that scholars of the practice turn have paid so little attention to education in previous studies, particularly because some of the main figures that inspired its theoretical advances were sociologists of education, or at the very least, scholars critically concerned with education. Pierre Bourdieu is of course a famous example (not least because one of his first institutional moves was to create a centre for the sociology of education). Bourdieu's sociological theory was forged in great part with education in mind, whether it was to draw attention to the role of educational institutions in creating an artificial scholarly gaze, or to reveal the centrality of education in the process of social stratification.[34] In addition to Bourdieu, one could also turn to the equally towering figure of Michel Foucault, no less interested in the role of disciplines in structuring social practices across entire historical epochs.[35] I do not want to labour the point, but again: the disinterest for education among scholars interested in the practice turn is puzzling, as it constitutes an obvious site to study how international practitioners change and where changes in their practices originate.

One of the tasks ahead for scholars interested in understanding how international practitioners and their practices change is an important historical effort to grasp how their background knowledge has developed over time.[36] This can be

[34] For a few examples of Bourdieu's work on education see Pierre Bourdieu and Jean-Claude Passeron, *Les héritiers: Les étudiants et la culture* (Paris: Editions de Minuit, 1964); Pierre Bourdieu and Jean-Claude Passeron, *La reproduction: Eléments pour une théorie du système d'enseignement* (Paris: Editions de Minuit, 1970); Pierre Bourdieu, *Homo academicus* (Paris: Editions de Minuit, 1984); Pierre Bourdieu, *La noblesse d'Etat: Grandes écoles et esprit de corps* (Paris: Editions de Minuit, 1989).

[35] Nearly all of Foucault's work is concerned with such questions, which means I could potentially cite his whole *œuvre*. For excellent illustrations, see Foucault, *Histoire de la folie à l'âge classique*; Michel Foucault, *Surveiller et punir: Naissance de la prison* (Paris: Gallimard, 1993).

[36] This endeavour is quite different from the ones that seek to theorise the mechanisms of knowledge generation and stabilization. See e.g. Christian Bueger, "Making Things Known: Epistemic

done by putting a particular focus on education. Upon reading this statement, one might immediately think that there are so many different types of knowledge on which international practitioners have relied that such an inquiry is vague and lacks direction. And indeed, to take one example, an early modern diplomat may have relied on knowledge of languages, courtly behaviour, law, and so on. However, I want to keep the focus on the same type of knowledge that Ruggie and Bartelson were interested in, that is, the knowledge that international practitioners use to know international actors.

II. Forms of knowledge: properties and examples

Michel Foucault, Ian Hacking, and Bernard Cohn, amongst others, have used the expression 'form of knowledge.'[37] The idea of there being different forms of knowledge is not a new one. It exists under various forms in the history and philosophy of science, expressed in such concepts as 'styles of thinking,'[38] 'styles of reasoning,'[39] and 'paradigms.'[40] In the following paragraphs, I first lay out the three properties of forms of knowledge in international relations. These three properties emanate, as will become clear, from the discussion in the previous section. Second, I discuss three forms of knowledge: modern cartography, international treaties, and heraldry. In so doing, I briefly point to specific ways in which the study of these forms of knowledge might upset our understanding of

Practices, the United Nations, and the Translation of Piracy," *International Political Sociology* 9, no. 1 (2015): 1–18.

[37] See Bernard S. Cohn, *Colonialism and Its Forms of Knowledge: The British in India* (Princeton, N.J.: Princeton University Press, 1996); Hacking, *Historical Ontology*, 74; Michel Foucault, *Sécurité, territoire, population: Cours au Collège de France, 1977-1978* (Paris: Seuil, 2004), 104. Foucault uses the expression 'forme de savoir' in passing, as does Hacking, while Cohn uses it as part of his book's title though he never defines it.

[38] Crombie, *Styles of Scientific Thinking in the European Tradition*.

[39] Hacking, *Historical Ontology*.

[40] Thomas S. Kuhn, *The Structure of Scientific Revolutions* (Chicago: University of Chicago Press, 1996).

when specific features of international relations emerge. Two other forms of knowledge, gentility and statistics, are treated in separate chapters as they are central to the substantive argument of the thesis. [41]

The forms of knowledge discussed in this section are all ways of knowing and representing international actors. This is accordingly the first and central element of the definition of a form of knowledge, namely that they are *stable and enduring ways of knowing and representing international actors*. A corollary of this quality is that a form of knowledge is both enabling and constraining as it only brings to light specific facets of international actors. In this respect, forms of knowledge are inspired by a number of contributions, such as Kuhn's 'paradigm' in the context of scientific work. New paradigms which arise during scientific revolutions describe reality in a new way by creating new 'methods, problem-field[s], and standards of solution.'[42] They redefine what scientific problems are, how one can speak about them, and what distinguishes a 'real scientific solution from a mere metaphysical

[41] On international treaties see David Kennedy, "Primitive Legal Scholarship," *Harvard International Law Journal* 27 (1986): 1–98; Martti Koskenniemi, *From Apology to Utopia : The Structure of International Legal Argument* (Cambridge: Cambridge University Press, 2005); Randall Lesaffer, ed., *Peace Treaties and International Law in European History: From the Late Middle Ages to World War One* (Cambridge: Cambridge University Press, 2008); Arthur Nussbaum, *A Concise History of The Law Of Nations* (New York, NY: Macmillan Co., 1947), 135, 142–48, 163–77. On modern cartography see Jordan Branch, *The Cartographic State: Maps, Territory, and the Origins of Sovereignty* (Cambridge: Cambridge University Press, 2014); David Woodward, ed., *The History of Cartography, Volume 3: Cartography in the European Renaissance* (Chicago, IL: University Of Chicago Press, 2007). On statistics see Alain Desrosières, *The Politics of Large Numbers: A History of Statistical Reasoning*, trans. Camille Naish (Cambridge, MA: Harvard University Press, 2002); Ian Hacking, *The Taming of Chance* (Cambridge: Cambridge University Press, 1990); Harm Klueting, *Die Lehre von der Macht der Staaten: Das aussenpolitische Machtproblem in der "politischen Wissenschaft" und in der praktischen Politik im 18. Jahrhundert* (Berlin: Duncker & Humblot, 1986). On gentility see Jeroen Duindam, *Vienna and Versailles: The Courts of Europe's Dynastic Rivals, 1550-1780* (Cambridge: Cambridge University Press, 2008); Elias, *The Civilizing Process*; C. Stephen Jaeger, *The Origins of Courtliness: Civilizing Trends and the Formation of Courtly Ideals, 939-1210* (Philadelphia: University of Pennsylvania Press, 1985); Vec, *Zeremonialwissenschaft im Fürstenstaat*. On heraldry see Osvaldo Cavallar, Susanne Degenring, and Julius Kirshner, *A Grammar of Signs: Bartolo Da Sassoferrato's "Tract on Insignia and Coats of Arms"* (Berkeley, CA: University of California Press, 1994); Maurice Keen, *Chivalry* (London: Yale University Press, 1984), chaps. 7, 9.

[42] Kuhn, *The Structure of Scientific Revolutions*, 103.

speculation, word game, or mathematical play.'[43] This is in many respects similar to Crombie's idea of a 'style of thinking' and Hacking's modification of the concept as 'style of reasoning.' For both these authors – the former being an historian and the latter a philosopher – these 'styles' create new objects of scientific enquiry, demand new types of evidence, and produce new sentences eligible to truth or falsehood.[44] Forms of knowledge are therefore similar to paradigms and styles of thinking/reasoning in that they consist of a new way of describing reality – in this case, international actors. The main difference between forms of knowledge and the aforementioned concepts is that the former are tools for knowing and representing, but they do not make any claims about relations between various objects in the world. By opposition to a paradigm or a style of reasoning, a form of knowledge does not produce new laws or theories. In fact, it is likely to be compatible with many different and opposing laws and theories about international relations.

The second fundamental property of forms of knowledge is that they are practical tools. As discussed earlier, this characteristic is almost a matter of course for any conception of knowledge grounded in practice theory. A form of knowledge can thus be deemed to exist when a specific way of knowing and representing international actors is consistently used by groups of international practitioners and serves as a crucial tool for conducting their activities.

The third fundamental property of a form of knowledge is that its transmission takes place through professional or quasi-professional education. In the course of an individual's socialisation in society, there are two subsequent

[43] Ibid.
[44] Hacking, *Historical Ontology*, 189; Crombie, *Styles of Scientific Thinking in the European Tradition*, 83.

processes generally referred to as primary and secondary socialization. The first takes place in the family and in relatively small social circles, whereas the second consists in 'the internalization of institutional or institution-based 'sub-worlds.'[45] Berger and Luckmann claim that '[t]he development of modern education is […] the best illustration of secondary socialization.'[46] This education can be more or less institutionalised, from a structured university curriculum to a looser form of teaching by eminent scholars who write textbooks themselves. To make a parallel with a famous concept, Kuhn's description of the conditions surrounding the emergence of a paradigm in fact directly refers to education. He mentions 'the formation of specialized journals, the foundation of specialists' societies, and the claim for a special place in the curriculum.'[47] Professional or quasi-professional education is then the essential means through which individuals become competent actors within a specific form of knowledge. [48]

The three properties outlined above can allow one to identify forms of knowledge that have not been analysed here, which will be relevant to understand change in how international practitioners know sovereigns, how their practices are structured, and how international relations more broadly function. The idea is that these forms of knowledge underpin key international practices, such as diplomacy or war, and the point is to analyse how the forms of knowledge on which

[45] Peter L. Berger and Thomas Luckmann, *The Social Construction of Reality: A Treatise in the Sociology of Knowledge* (London: Allen Lane, 1967), 166.
[46] Ibid.
[47] Kuhn, *The Structure of Scientific Revolutions*, 19.
[48] Another common feature is that all these forms of knowledge discussed in this chapter is that they eventually all served as tools to govern polities domestically. This however, is not a necessary feature of these forms of knowledge. See David Buisseret, *Monarchs, Ministers, and Maps: The Emergence of Cartography as a Tool of Government in Early Modern Europe* (Chicago, IL: University of Chicago Press, 1992); Peter R. Coss and Maurice Hugh Keen, *Heraldry, Pageantry and Social Display in Medieval England* (London: Boydell Press, 2002); Foucault, *Sécurité, territoire, population*; Orest Ranum, "Courtesy, Absolutism, and the Rise of the French State, 1630-1660," *The Journal of Modern History* 52, no. 3 (September 1, 1980): 426–51.

international practitioners rely undergo radical shifts. In other words, the critical insight is that systemic change is the result of shifts in how communities of practitioners know the constituent units of the international system. By drawing on forms of knowledge that are embedded in social structures, communities of practitioners can constitute the international system, its fundamental units, and its patterns of stratification.

The study of forms of knowledge in international relations can thus alter our understanding of when and how a number of key practices and features of modern international relations emerged, so as to pose new questions about their causes.[49] Further, it may produce new understandings of how and why large-scale change happens in the international system, a question to which I will come back in the conclusion. At this point, I simply want to showcase the heuristic potential of forms of knowledge by briefly exploring three examples: modern cartography, international treaties, and heraldry.

Modern cartography

Modern cartography emerged in the early modern period and constituted a new way of knowing and representing international actors. It represented international actors through territory with linear boundaries. Space had become 'a surface that is homogeneous and geometrically divisible and on which different areas or places differ only quantitatively, not qualitatively.'[50] While the territorial representation of international actors appears as one of the most elementary features of modern international relations, this shift in fact only took root in the late Renaissance. Prior

[49] Benchmark dates are often linked to specific accounts of change in the international system because by drawing attention to specific events or periods, they highlight certain drivers of change (causes) and discard others. See Barry Buzan and George Lawson, "Rethinking Benchmark Dates in International Relations," *European Journal of International Relations* 20, no. 2 (2014): 437–62.
[50] Branch, *The Cartographic State*, 48.

to this time, the functions we associate to maps were fulfilled by texts, and maps served other purposes.[51]

Modern cartography was a practical tool, which amongst other things, altered the practices of treaty-making and diplomacy.[52] In early modern treaties, for instance in the famous treaties of Münster and Osnabruck, 'a list of places "with all their Territorys"' is mentioned, but they 'had to be followed by a careful listing of all the associated personal and jurisdictional authorities - otherwise these might have been considered not to have been granted.'[53] In later treaties, for instance the Treaty of the Pyrenees (1659), mention is made of natural frontiers, and in the Treaty of Utrecht (1713) maps were actually used in the negotiations. This change was markedly slower than in treaty-making in the colonial context.[54] By the nineteenth century, maps were commonly used in diplomatic negotiations and in treaty-making. In the Treaties of Paris concluded after the Congress of Vienna, 'territory was divided linearly, with those lines of division described in careful geographic and cartographic terms.'[55] Modern cartography therefore became of critical importance to a number of international practitioners, particularly diplomats.

One of the cornerstones for its early transmission was Claudius Ptolemy's *Geography*, dating back to the second century CE. This work discussed methods of mapping and provided the coordinates of a number of cities. Though a number of

[51] Ibid., 43–48.
[52] Ibid., chap. 6.
[53] Ibid., 127.
[54] Ibid., 132. For a longer analysis see Lauren Benton, *A Search for Sovereignty: Law and Geography in European Empires, 1400-1900* (Cambridge: Cambridge University Press, 2009); Jordan Branch, "'Colonial Reflection' and Territoriality: The Peripheral Origins of Sovereign Statehood," *European Journal of International Relations* 18, no. 2 (2012): 277–97; Matthew H. Edney, *Mapping an Empire: The Geographical Construction of British India, 1765-1843* (Chicago: University Of Chicago Press, 1999).
[55] Branch, *The Cartographic State*, 135.

Ptolemy's writings were read during the Middle Ages, this one was apparently 'neither read nor circulated.'[56] It was translated to Latin in the fifteenth century and could be found in printed edition by the 1470s. The actual representation of international actors through modern cartography dates back to about 1570, when Abraham Ortelius' *Theatrum Orbis Terrarum* was published. Atlases, along with Ptolemy's teachings, constituted the quasi-professional education through which modern cartography, 'a means for approaching and appreciating the orderliness of the earth and patterns of human domination over it,' was transmitted.[57]

The use of modern cartography gathered speed outside Europe in the seventeenth century, when in the context of colonialism, the intention to represent political authority over territory emerged.[58] This provided an important normative impetus to the use of modern cartography by governments.[59] The practices developed in this context were then imported in Europe.[60] However, Jordan Branch forcefully argues that it was not fully accepted and established until the nineteenth century,[61] the historical juncture at which modern cartography can truly be said to have taken root in international practice.

At this point, I want to come back to the claims made by John Ruggie, which I mentioned earlier. John Ruggie, over two decades ago, brought the issue of territoriality to the fore in International Relations, arguing that its emergence

[56] Ibid., 51.
[57] Chandra Mukerji, "Printing, Cartography and Conceptions of Place in Renaissance Europe," *Media, Culture & Society* 28, no. 5 (2006): 661, cited in Branch, *The Cartographic State*, 54.
[58] On this see David Buisseret, "The Cartographic Definition of France's Eastern Boundary in the Early Seventeenth Century," *Imago Mundi* 36, no. 1 (1984): 72–80.
[59] See e.g. James R. Akerman, *The Imperial Map: Cartography and the Mastery of Empire* (Chicago, IL: University of Chicago Press, 2009); Branch, "'Colonial Reflection' and Territoriality."
[60] Branch, *The Cartographic State*, chap. 5.
[61] Ibid., 74–76.

signalled a fundamental discontinuity in the international system. He linked the emergence of modern conceptions of territoriality to the rise of single point perspective in the Renaissance. Single point perspective however fails to qualify as a form of knowledge. It does not constitute a specific way of knowing and representing sovereigns, and it was certainly not a practical tool for international practitioners which was transmitted to them through professional or quasi-professional education. Modern cartography, by contrast, qualifies as a form of knowledge.

While cartography did emerge in the Renaissance, it only really became a form of knowledge, i.e. a way of knowing and representing international actors used by diplomats, in the very early nineteenth century. This remark about cartography does not imply that Ruggie is entirely wrong; rather it shows that by using the concept of forms of knowledge, it is possible to be more precise in identifying the types of knowledge that are directly involved in the construction of international actors and of the international system. In turn, this precision can allow us to formulate clearer claims about why, when and how key international practices undergo fundamental changes, and thus alter the international system.

Though single point perspective appears during the Renaissance, the territorial representation of sovereigns achieved through modern cartography arguably only really had a decisive effect on international practices like treaty-making from the early nineteenth century onwards.[62] This took place two to three centuries after the period that Ruggie identities as a key turning point for the emergence of modern conceptions of territoriality (depending on when one locates the end of the Renaissance). Such an observation implies a number of consequences

[62] Ibid., 134–35.

for analyses of early modern international relations and for our understanding of when modern conceptions of territoriality, which we associate with the contemporary international system, emerged.[63] First, it suggests that the early modern international system was not based on modern conceptions of territoriality, but instead on something that would have been closer to late medieval notions of space and authority. This implies a certain level of continuity between the medieval period and early modernity. Second, my analysis suggests that contemporary conceptions of territoriality have a more recent history than we care to admit, a fact which should create a *Verfremdungseffekt* for scholars of international relations who take many features of the modern international system for granted.

International treaties

The use of international treaties as a form of knowledge emerged in the late seventeenth and early eighteenth centuries, as scholars like G. W. Leibniz and publicists such as Jean Dumont produced the first known public treaty-compilations, the *Codex Juris Gentium Diplomaticus* (1693-1700) and the *Corps universel diplomatique du droit des gens* (1726-39).[64] This became a popular genre and an increasing number of scholars produced such compilations, for instance the Abbé de Mably and later on, G. F. von Martens. The reliance on compilations of treaties in order to know international actors, their attributes, their position in international society and the like, constituted a striking innovation.[65] Indeed, by reading international treaties, particularly the obligations, and rights bestowed on

[63] On the importance of periodization see Buzan and Lawson, "Rethinking Benchmark Dates in International Relations."
[64] See for instance Heinz Duchhardt, "Peace Treaties from Westphalia to the Revolutionary Era," in *Peace Treaties and International Law in European History: From the Late Middle Ages to World War One*, ed. Randall Lesaffer (Cambridge: Cambridge University Press, 2004), 50–51; Edward Keene, "The Age of Grotius," in *Routledge Handbook of International Law*, ed. David Armstrong (London: Routledge, 2009), 138–39.
[65] Keene, "The Age of Grotius," 138–39.

different sovereigns, it was possible to know various aspects of a sovereign. Though treaties are as old as recorded history, their systematic use to know and represent international actors as well as their relations with one another is not.

International lawyers naturally used them, but interestingly, the use of treaties to know 'the international' and particularly to know the actors that composed it, slowly became a key tool for ambassadors. When the first schools for ambassadors were created in the early eighteenth century, they made their students read treaty-compilations, whereas this practice was inexistent before.[66] In fact, the word diplomacy, which the *OED* dates back to the late eighteenth century, is linked to the science of 'diplomatics,' a discipline concerned with the study of official documents. It is no wonder that foreign affairs officials, who paid increasing attention to a particular kind of official document (i.e. treaties), earned the name *diplomats*. This linguistic shift is indicative of the growing place of international treaties in foreign affairs, a movement later accelerated with the organisation of the legal profession and the growing positivist sensibility among international lawyers. [67] International treaties thus became important practical tools for diplomats.[68]

[66] See for instance H. M. A. Keens-Soper, "The French Political Academy, I7I2: A School for Ambassadors," *European History Quarterly* 2, no. 4 (1972): 215; Martti Koskenniemi, "Between Coordination and Constitution: International Law as a German Discipline," *Redescriptions: Yearbook of Political Thought, Conceptual History and Feminist Theory* 15 (2011): 49–51.

[67] On these two themes see respectively Koskenniemi, *The Gentle Civilizer of Nations*; Monica Garcia-Salmones Rovira, *The Project of Positivism in International Law* (Oxford: Oxford University Press, 2014).

[68] The rise in importance of international treaties suggests that the move 'from status to contract' that Henry Sumner Maine identified as differentiating ancient and modern societies, took place in the eighteenth century in international society. See Henry Sumner Maine, *Ancient Law* (London: John Murray, 1870). It is, however, a rather puzzling development in light of the argument that the early modern period is characterised by the shift from a contractual conception of international society to a 'natural' one, i.e. a society based on inherent sociability rather than on contract, i.e. treaties. See Evgeny Roshchin, "(Un)Natural and Contractual International Society: A Conceptual Inquiry," *European Journal of International Relations* 19, no. 2 (2013): 257–79.

Treaty-compilations assembled by individuals like Leibniz, Dumont, Mably, and von Martens, constituted the first type of quasi-professional education through which international treaties as a form of knowledge was transmitted. Both within law departments and outside them, with the creation of diplomatic schools in Paris, Strasbourg, and Vienna, the transmission of a form of knowledge based on international treaties was formalised.[69] Indeed, one of the most important subjects taught in these diplomatic schools was the study of treaty compilations. This form of knowledge became sufficiently important for diplomatic practice to deserve a long analysis in François de Callières' well-known eighteenth century diplomatic manual, *De la manière de négocier avec les souverains*.[70] In this work, he claims that to be properly educated, an ambassador should read all the treaties concluded between European princes and states, particularly those between Austria and France, who shape the affairs of Christendom.[71] Later on in the nineteenth century, the professional transmission of international treaties as a form of knowledge was further enshrined with the development of an organised profession of international law, notably through the *Institut de Droit International*.[72]

A direct result was that the law of nations was increasingly seen as being based on formal consent (at least in part), namely on voluntary agreements between states which mostly took the form of international treaties.[73] Since the nineteenth

[69] Keene, "The Age of Grotius," 138–39; Keens-Soper, "The French Political Academy, I7I2," 215; Koskenniemi, "Between Coordination and Constitution: International Law as a German Discipline," 49–51.
[70] François de Callières, *De la maniere de negocier avec les souverains.: De l'utilité des negociations, du choix des ambassadeurs & des envoyez, & des qualitez necessaires pour réüssir dans ces emplois.* (Amsterdam: La Compagnie, 1715), chaps. 7, 18.
[71] Ibid., 79–80.
[72] Koskenniemi, *The Gentle Civilizer of Nations*, chap. 1.
[73] On Leibniz see Tetsuya Toyoda, *Theory and Politics of the Law of Nations: Political Bias in International Law Discourse of Seven German Court Councilors in the Seventeenth and Eighteenth Centuries* (The Hague: Martinus Nijhoff, 2011), 90–93. On Dumont see Keene, "The Age of Grotius," 138–39. On von Martens see Martti Koskenniemi, "Into Positivism: Georg Friedrich von Martens (1756–1821) and Modern International Law," *Constellations* 15, no. 2 (2008): 189–207.

century, this stance is called legal positivism. Interestingly, the rise of international treaties as a form of knowledge largely preceded positivist ideas about international law.[74] Positivism constitutes a specific view of what the law is and of where its authority comes from, but it is not a form of knowledge as it is not way of knowing and representing international actors. The form of knowledge that is international treaties is a component of positivism, but positivism is more than this specific form of knowledge.

What does the sketch of international treaties as a form of knowledge contribute to our understanding of international relations? I would argue that it tells us about the emergence of a 'norm' of contractual international law. There is a classic narrative about the legalisation of international relations at the very end of the nineteenth century – epitomised by the Hague Conferences – developed by scholars such as Chris Reus-Smit, Martha Finnemore, and Emmanuelle Jouannet. While Reus-Smit speaks of the emergence of a norm of contractual international law, Jouannet speaks of a process of contractualization of international society through treaties.[75] The problem facing these claims is that the use of international treaties – the clearest expression of contractual international law – as a way of knowing and representing international actors, was already gaining ground in the early eighteenth century, over a century before the shift they identify. This suggests that claims about the emergence of a norm of contractual international law that identify the very end of the nineteenth century as a critical juncture may be 'off' by a little more than a

[74] On positivism in international law see Rovira, *The Project of Positivism in International Law*.
[75] Emmanuelle Jouannet, *The Liberal-Welfarist Law of Nations* (Cambridge: Cambridge University Press, 2011), 38, 120; Reus-Smit, *The Moral Purpose of the State*, 140–45; Martha Finnemore, *The Purpose of Intervention: Changing Beliefs about the Use of Force* (Ithaca, N.Y: Cornell University Press, 2004), 41–42ff.

century.[76] It thus follows that they may also have misinterpreted the causes underlying the rise of contractual international law. If the use of international treaties as a form of knowledge was already on the rise in the early eighteenth century, then it is probable that Vattel's famous *Droit des gens* was not at the root of this change, contrary to what Reus-Smit suggests.[77]

To understand why contractual international law became so important in the eighteenth century, one might want to explore the reasons underlying the creation and growth of treaty-compilations as a genre, as well as the reasons which led to their incorporation into diplomatic education. Interestingly, identifying the emergence of a greater role for contractual international law in the eighteenth century provides a potential explanation for the treaty-making revolution of the early nineteenth century, when there was an explosion in the number of treaties signed by states.[78] In any case, the examination of international treaties as a form of knowledge sheds new light on the construction of the modern international system. It does so by challenging dominant conceptions of when a norm of contractual international law emerged. This novel perspective also opens up new research questions regarding the origins of this eighteenth century development.

Heraldry

Heraldry is another form of knowledge dating back to the late medieval era. I am aware that speaking of heraldry in the context of a discussion on the construction of international systems may seem odd, but this is in great part due to our modern gaze. In the 'highly visual culture' of the late medieval and early modern era,

[76] Interestingly, the eighteenth century is a period that Reus-Smit associates with 'absolutist international society.' See Reus-Smit, *The Moral Purpose of the State*, chap. 5.
[77] Ibid., 132–34.
[78] See Edward Keene, "The Treaty-Making Revolution of the Nineteenth Century," *The International History Review* 34, no. 3 (2012): 475–500.

heraldry represented international actors with ensigns of various shapes, colours, fabrics, and metals.[79] These markers allowed various people to estimate the standing of a given international actor, their claims to prestige, right to bear arms, respect, authority, lineage, and the like.[80] It also follows from this that heraldry was central to representing and knowing the way in which international society was stratified.[81]

Aside from being extremely practical to situate combatants on a battlefield, heraldry also served as a tool in late medieval and early modern ceremonials. Though with a presentist bias one is inclined to dismiss such things as trivial, ceremonial was absolutely central to early modern international relations, particularly to display hierarchy among sovereigns.[82] This is in part because transport and communication were much slower than they are nowadays, and literacy much less common. Sovereigns were therefore known through representations, either visual or corporal. One of the principal visual representations of sovereigns was heraldry.

The transmission of heraldry as a form of knowledge also relied in great part on treatises written by famous scholars. Bartolus of Sassoferrato's *Tractatus de Insigniis et Armis* (1355) played a crucial role in this respect. Eventually, institutions regulating heraldry received royal recognition and rose in importance. For instance, the College of Arms, in England, received a royal charter from

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[79] Edward Keene, "The Naming of Powers," *Cooperation and Conflict* 48, no. 2 (2013): 278.
[80] This question was so central that it received extensive attention from Bartolus of Sassoferrato, "one of the most important figures in the legal history of the concept of sovereignty," in his *Tractatus* (Keen 1984, 148).
[81] Keene, "The Naming of Powers," 1082.
[82] William James Roosen, *The Age of Louis XIV: The Rise of Modern Diplomacy* (London: Transaction Publishers, 1976); William Roosen, "Early Modern Diplomatic Ceremonial: A Systems Approach," *The Journal of Modern History* 52, no. 3 (1980): 452–76. Interestingly, heraldry also served to display hierarchy with other lords. See e.g. Coss and Keen, *Heraldry, Pageantry and Social Display in Medieval England*. This function is for instance neatly illustrated by the central place given to heraldry in the sixteenth century 'stag room' of the royal palace of Sintra in Portugal.

Richard III in 1484 and became a repository of heraldic knowledge and the seat of 'transmitters' of heraldry.[83]

Heraldry, associated with families and dynasties, developed in the late Middle Ages in Europe, but it was only systematised with Bartolus of Sassoferrato's aforementioned treatise. Heraldry served to identify armigerous international actors (those allowed to bear arms) and to codify sovereigns' position within the international system. Many other means might have been used to represent international actors, but this one was particularly well suited to a time when people did not think of international actors through generic groups (e.g. princes, dukes, etc.) but as specific individuals or dynasties.[84]

The fact that heraldry was both a product of the medieval era and a tool of early modern international relations points to a particular type of continuity between the two epochs, which is all too often overlooked. Studying the role of heraldry in medieval and early modern international society may challenge the boundaries erected between the medieval and the early modern by those interested in the construction of international systems.

Knowing international actors and constructing the world

International practitioners have historically relied on very different knowledge to know international actors. This section has outlined what the properties of these forms of knowledge are and illustrated them concretely with three succinct examples: modern cartography, international treaties, and heraldry. These forms of knowledge are key to understanding how international practitioners change, and thereby to understand how their practices evolve as well as how international

[83] Maurice Keen, *Origins of the English Gentleman: Heraldry, Chivalry and Gentility in Medieval England, c.1300-c.1500.* (Stroud: Tempus, 2002), 97.
[84] Keene, "The Naming of Powers," 277.

relations are transformed over time. One of the critical insights that the concept allows us to formulate is that many features of international relations emerge as a result of shifts in how communities of practitioners know the constituent units of the international system. By drawing on forms of knowledge that are embedded in social structures, international practitioners constitute the fundamental units of the international system, alter their own practices, and ultimately change the way in which international relations take place.

III. Concluding remarks

The question of how we have historically thought about international actors has long been considered key to understanding international change. This question has in fact been at the heart of inquiries about the construction of international systems. In this chapter, I argued that an equally interesting alternative, and one that may give us more empirical traction, was to explore not how people 'think about' international actors, but how they 'know' them. Contrary to what scholars such as Jens Bartelson and John Ruggie have done, I claimed that we should pay particular attention to the knowledge that international practitioners use to know international actors and that doing so required a focus on their education.

I then outlined three key properties of these forms of knowledge: they are all stable and relatively enduring ways of knowing and representing international actors, they are tools for international practitioners, and they are transmitted through professional or quasi-professional education. Based on these properties, I subsequently explored three examples of these forms of knowledge: modern cartography, international treaties, and heraldry. In so doing, I identified liminal cases which did not qualify as forms of knowledge in order to display the remit of

this concept. For instance, while modern cartography meets all the requirements to qualify as a form of knowledge, Ruggie's notion of single point perspective does not.

The concept of forms of knowledge as it is developed here leaves us with three key points. First, understanding how international practices morph, and how fundamental discontinuities in the international system take place requires in-depth studies of international practitioners. This implies identifying who they are, what they do, and what they seek. More specifically however, once these foundations are laid out, the crucial point consists in pinning down the practical tools that international practitioners use to know and represent international actors (i.e. their forms of knowledge), and this can be identified by focusing specifically on their education.

Second, the emphasis on forms of knowledge as key elements in the construction of international systems points to the role of education in international relations. To be clear, I am not suggesting that every educational reform should be of concern to scholars of international relations. However, if forms of knowledge are at the centre of international change, then it follows that the education of international practitioners on the very long run should be of critical interest to scholars of international relations. This is a point to which I shall return in the final conclusion of the thesis. In any case, from this perspective, the politics of education is critical to the study of international relations. To explore the education of international practitioners, students of international relations must turn to social and cultural histories of international law, economics, and diplomacy.

Third, by delving into three examples of forms of knowledge, I hinted at the potential payoffs of researching them, specifically with regards to challenging

common conceptions of when, how, and why the international system undergoes fundamental changes. Outlining the potential importance of forms of knowledge to understanding fundamental discontinuities in the international system lays the ground work for the development of a new theory of systemic change.[85] This task however falls beyond the scope of this thesis.

[85] For examples of theories of systemic change see e.g. Daniel H. Nexon, *The Struggle for Power in Early Modern Europe: Religious Conflict, Dynastic Empires, and International Change* (Princeton: Princeton University Press, 2009); Spruyt, *The Sovereign State and Its Competitors*. A number of theories of agency could provide the underpinnings for a new theory of systemic change centred on forms of knowledge. While constructivism and particularly what Pouliot (2008) calls the logic of practicality is an obvious candidate, rationalism also offers interesting possibilities especially with the idea of 'bounded rationality.' See Pouliot, "The Logic of Practicality." For recent uses of bounded rationality in political science see Lauge N. Skovgaard Poulsen, *Bounded Rationality and Economic Diplomacy: The Politics of Investment Treaties in Developing Countries* (Cambridge: Cambridge University Press, 2015); Joseph Jupille, Walter Mattli, and Duncan Snidal, *Institutional Choice and Global Commerce* (Cambridge: Cambridge University Press, 2013); Kurt G. Weyland, *Bounded Rationality and Policy Diffusion Social Sector Reform in Latin America* (Princeton, N.J.: Princeton University Press, 2006). For a seminal statement on bounded rationality see Herbert A. Simon, "Bounded Rationality and Organizational Learning," *Organization Science* 2, no. 1 (1991): 125–34. Finally, Wendt's outline of a systems theory of international relations based on quantum science appears to chime in rather well with the notion that systemic change is critically linked to international practitioners' knowledge. See Alexander Wendt, "Flatland: Quantum Mind and the International Hologram," in *New Systems Theories of World Politics*, ed. Mathias Albert, Lars-Erik Cederman, and Alexander Wendt (London: Palgrave, 2010), 279–310.

Chapter 3. The merchant bankers

> The [merchant banks] belong in tales of fog-coated streets and hansom cabs, with tea clippers coming softly up the Thames - the gas lamps are burning in the banking parlour where all the partners sit together, a rich foreign banker has just been sent away with a flea in his ear, an emissary from a distant king waits by the bright coal fire in the outer hall, a pigeon is arriving on the roof with a dispatch from Dover, and the carriage that is pulling up outside contains the senior partner's beautiful young wife, who is closely related to four Cabinet Ministers and the Archbishop of Canterbury.[1]

Scholars and pundits are accustomed to thinking of the importance of financial markets in determining states' ability to borrow. These markets are nowadays populated by an innumerable amount of actors who engage in all sorts of different operations. The sheer number of actors involved in the business of lending money to states makes it difficult to analyse how lenders think about states, and to understand how they actually assess states' creditworthiness. However, and as I will try to show in this chapter, it has historically not always been the case that there was a plethora of actors involved in sovereign lending. There was a time when they were less numerous, a time when only a few firms mattered. This was the world of the old sovereign lending, and the firms in question were merchant banks. Though nowadays their names – Rothschild, Warburg, Morgan – still command respect, inspire awe, or trigger curiosity, the importance of these banks has all but waned. And yet, in the nineteenth century and until the interwar period, this community of practitioners was absolutely central to sovereign lending and to international finance more broadly.

[1] Paul Ferris cited in Paul Ferris, *The City* (London: Victor Gollancz, 1960), 76.

In the nineteenth century, the importance of merchant bankers was certainly not lost on contemporaries, when some claimed that each of the banker's loans 'seats a nation or upsets a throne.'[2] The community of merchant bankers that dominated international finance, and particularly sovereign lending, from the nineteenth century to the interwar period emerged in the late eighteenth century and in the first half of the nineteenth. It came to occupy the central place in sovereign lending, so much so that famous merchant bankers became the subject of fiction written by their contemporaries. In his novel *Coningsby*, Benjamin Disraeli, a nineteenth century British Prime Minister, speaks of a certain Sidonia who 'established a brother, or a near relative, in whom he could confide, in most of the principal capitals,' claiming that Sidonia was 'lord and master of the money-market of the world, and of course virtually lord and master of everything else.' This character, it has been widely recognised, bore strong resemblance to Nathan Rothschild. Some writers were more direct and identified specific bankers directly. Lord Byron for instance writes in *Don Juan*:

> Who hold the balance of power of the world? Who reign
> O'er congress, whether royalist or liberal? […]
> Jew Rothschild, and his fellow Christian, Baring. […]
> Those and the truly liberal Lafitte,
> Are the true lords of Europe.[3]

These remarks are not limited to Anglophone literature, but can also be found in Continental European literature. Heinrich Heine famously declared, 'Money is the God of our time, and Rothschild is his prophet.'[4] In a different vein, Honoré de Balzac took the Rothschilds as a model for Nucingen, one of his characters in the *Comédie Humaine*.[5] The story of how Nucingen made his fortune is a romanticized

[2] Lord Byron, *Don Juan* (London: Penguin, 2004), 136 Canto the Twelfth.
[3] Ibid.
[4] Ferguson, *The House of Rothschild Vol. 1*, 17.
[5] Honoré de Balzac, *La Maison Nucingen* (Paris: Gallimard, 1989).

version of James de Rothschild's own story. The place of these merchant banks within nineteenth century European finance was clear to many writers and has puzzled and interested people to this day.

Oddly enough, two recent studies manage to do away with this crucial fact.[6] For instance Michael Tomz explores the history of sovereign debt since the eighteenth century and overlooks the huge shift that takes place in the first half of the twentieth century, with the multiplication of actors in sovereign lending, and the subsequent decline in the place of merchant bankers as key intermediaries in the business of lending to sovereigns. But this is more the exception than the rule, as a number of scholars have argued that merchant bankers were indeed central to nineteenth century sovereign lending.[7] The most common view is that the First World War was *the* turning point for the decline of merchant banks. Though some researchers focusing on the British situation, such as Youssef Cassis and Lisle-Williams, rightly see merchant bankers' domination continuing deep into the twentieth century, their claims are not specifically concerned with the activity of sovereign lending.[8]

Examining this specific practice, many scholars agree on the importance of merchant bankers for the nineteenth century. One of the chapters in Layna Mosley's interesting study compares what is commonly called the first era of globalisation to the present day. She identifies merchant bankers as the key actors of nineteenth century sovereign lending.[9] In short, sovereign lending has moved from being dominated by merchant bankers to being run by today's investment banks and a

[6] See Jonathan Kirshner, *Appeasing Bankers: Financial Caution on the Road to War* (Princeton: Princeton University Press, 2007); Tomz, *Reputation and International Cooperation*.
[7] For a recent statement of this position see Flandreau and Flores, "The Peaceful Conspiracy."
[8] Youssef Cassis, *City Bankers, 1890-1914* (Cambridge: Cambridge University Press, 1994); Michael Lisle-Williams, "Beyond the Market: The Survival of Family Capitalism in the English Merchant Banks," *The British Journal of Sociology* 35, no. 2 (June 1984): 241–71.
[9] See Mosley, *Global Capital and National Governments*, chap. 7; Flandreau et al., "The End of Gatekeeping."

host of other actors. This is broadly in tune with the view expounded by Stanley Chapman, who identifies 1914 as a turning point.[10] Vinod Aggarwal notes a similar decline of merchant banks, but pins it to the 1860s, rather than to 1914.[11] In his words, in the period from 1865 to 1914 bondholders managed to eliminate 'middlemen who did not always keep bondholders' best interests in mind.'[12] And while this now stands as an erroneous assessment in relation to the dominant historiography, there is some truth to it, insofar as new actors were beginning to challenge merchant bankers' domination. And yet, while merchant bankers were certainly declining, sovereign lending was an area of business to which they clung with great success.

In this chapter, I will deal with three issues regarding merchant bankers. The first section focuses on their identity. It outlines three of their salient characteristics, namely their continental European origins and the long tradition of court bankers from which a number of them emerged, their settlement in London and Paris and the networks they constituted, as well as their dual nature as both families *and* firms. The second section explores the main professional activities associated to the profession of merchant bankers in the nineteenth century. These include commerce and specifically the business of acceptances, central banking and government advising, and sovereign lending. Finally, picking up the question of sovereign

[10] Stanley D. Chapman, *The Rise of Merchant Banking* (London: Allen & Unwin, 1984), 173.
[11] Aggarwal, *Debt Games*, 19–25. For Aggarwal's full periodisation, read pp. 19-41. He identifies the end of the first epoch of sovereign debt with the 1860s and the creation of bondholder corporations. On this issue, see Rui Pedro Esteves, "The Bondholder, the Sovereign, and the Banker: Sovereign Debt and Bondholders' Protection before 1914," *European Review of Economic History* 17, no. 4 (November 1, 2013): 389–407. The identification of the 1860s as a pivotal time for the decline of an international bourgeoisie is an argument put forward by Charles Jones, though tellingly, he has very little to say about merchant bankers. See Charles A. Jones, *International Business in the Nineteenth Century: The Rise and Fall of a Cosmopolitan Bourgeoisie* (New York: New York University Press, 1987).
[12] Aggarwal, *Debt Games*, 25–29.

lending, the last part of this chapter asks what information was available to merchant bankers as sovereign lenders, particularly during the late eighteenth and early nineteenth century, the period associated with their rise and domination of sovereign lending.

I. Who are the merchant bankers?

Towards the end of the eighteenth century, a number of families established themselves in London and Paris.[13] These families would become the great merchant banks that dominated international finance until the interwar period.[14] These families were often Protestant or Jewish and came from German-speaking Europe, be it the Holy Roman Empire or Switzerland, though they did also include some French Huguenots. This is illustrated by R. H. Tawney's claim that 'behind Prince and Pope alike […] stood in the last resort a little German banker.'[15] Some evoke the idea of 'international Huguenots,' a network of 'family dynasties that linked Geneva, Berne, Frankfurt, Amsterdam and Paris, with London.'[16] Though the Dutch themselves had developed financial operations substantially in the eighteenth century,[17] it appears that 'ethnic trading groups that had been dispersed by religious

[13] One might expect a German financial centre to be part of this group, but "German foreign trade was wholly dependent on English intermediaries as far as finance was concerned," at least until the creation of Deutsche Bank in 1870. See Marcello De Cecco, *Money and Empire : The International Gold Standard, 1890-1914* (Oxford: Blackwell, 1974), 108.

[14] Some even argue that it lasted until the 1960s, see e.g. Michael Lisle-Williams, "Beyond the Market: The Survival of Family Capitalism in the English Merchant Banks," *The British Journal of Sociology* 35, no. 2 (June 1984): 245. This claim is also made here: Herbert Feis, *Europe, the World's Banker, 1870-1914: An Account of European Foreign Investment and the Connection of World Finance with Diplomacy before the War* (London: Cass, 1961), 8; Marc Flandreau and Juan H. Flores, "The Peaceful Conspiracy: Bond Markets and International Relations During the Pax Britannica," *International Organization* 66, no. 2 (2012): 211–41.

[15] R. H. Tawney cited in Andrew Walter, *World Power and World Money: The Role of Hegemony and International Monetary Order*, (New York ; London: Harvester Wheatsheaf, 1993), 30.

[16] Chapman, *The Rise of Merchant Banking*, 3–4; Hubert Bonin, *La Banque et Les Banquiers En France: Du Moyen Age À Nos Jours* (Paris: Larousse, 1992), 49.

[17] Sovereign lending on the Amsterdam market was in the hands of very few merchant banks among which one finds Hope & Co. (the most preeminent one), Goll & Co., George Clifford & Co., Andries Pels & Zoonen, Jacob Dull, and R and Th. De Smeth. Interestingly, a number of these firms came from Scotland and northern England, for instance Hope & Co. and Clifford & Co, respectively.

persecution were more tenacious in holding to it as it had become a way of life for them.'[18]

In Europe, there was a long tradition of court bankers, many of which were Jewish – and often referred to as 'court Jews.' The Dutch bankers did not stand in this tradition, but they were also not the ones to migrate to London and Paris. Merchant bankers indeed 'began almost as servants of the princes in whose employ they were able to accumulate great wealth,'[19] in other words, servants to a court. This was particularly important in the German context where minor German states and princes remained important until 1866.[20] In this context, merchants often lent to their local sovereign. The Rothschilds, who were based in Frankfurt, started lending to the Landgrave of Hesse-Cassel. Coincidentally, the German confederation often met in Frankfurt, so it was easy for the Rothschilds to make contacts there, or even to lend to the confederation itself.[21] For this reason, in the first half of the nineteenth century the Rothschilds lent to many minor German princes such as the Grand Duke of Hesse-Darmstadt, the Prince of Wied, the Duke of Bentheim-Tëcklenburg, Prince Victor zu Isenburg, the Duke of Saxe-Coburg-Gotha, the Duke of Anhalt-Cöthen, and to the Duke of Nassau.[22] In addition to sovereign loans, their interests often pertained to such things as bullion, mercury,

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These firms had an oligopolistic control of loans to foreign powers. This position was reinforced by the fact that wealthy investors had virtually no information about sovereigns' financial state, so as to make informed decisions about lending. The best they could do was to trust merchant bankers' judgements, despite the fact that these bankers also had very little information. On these matters see James Riley, *International Government Finance and the Amsterdam Capital Market, 1740-1815* (Cambridge: Cambridge University Press, 2009), 38–44, and chapters 7 and 8 more broadly.

[18] Chapman, *The Rise of Merchant Banking*, 2–5.

[19] Jerold Siegel, *Modernity and Bourgeois Life* (Cambridge: Cambridge University Press, 2012), 286.

[20] This is the year in which the North German Confederation was founded. On this issue see for instance Hans A. Schmitt, "From Sovereign States to Prussian Provinces: Hanover and Hesse-Nassau, 1866-1871," *The Journal of Modern History* 57, no. 1 (1985): 24–56. Of course, the final key step in the destruction of minor German states was 1871, which marks the foundation of the German Empire.

[21] Ferguson, *The House of Rothschild Vol. 1*, 126.

[22] Bertrand Gille, *Histoire de la maison Rothschild (2 vols.)* (Genève: Droz, 1965), 430–432.

diamonds, and the like.[23] Though not all merchant bankers were originally court bankers,[24] most reproduced their *modus operandi*.

Merchant bankers' practice was largely based around the idea that connections with princes, and with the court more broadly, always led to a range of other profitable activities. In this sense, they were very much men of the eighteenth and early nineteenth century, though it is interesting to note that the tradition of court Jews continued far into the nineteenth century, with such characters as Gerson Bleichröder, banker to Bismarck. The centrality of courts to merchant bankers' thinking is nicely illustrated by Salomon Rothschild's advice to his brothers in 1816, when in a letter to Nathan and James, he claimed that '[a] court is always a court and it always leads to something' (more on courts in Chapter 4).[25] In a similar vein, writing to his brothers, Amschel Rothschild made clear that 'business transactions with royalties always end in a profitable way,' and he thus subsequently asked them not to 'let the smallest business go by.'[26] This second quote also suggests that it might in fact not be a bad idea to take on unprofitable loans to sovereigns, as they may eventually pay off in a myriad of other ways, whether this was in monetary terms or ortherwise. An historian of the House of Morgan similarly states that sovereign lending was 'occasionally a loss-making activity,' using the example of J.S. Morgan's 1869 loan to Spain.[27] Lending to sovereigns was indeed to some extent a rite of passage to become a great merchant banker. While all merchant bankers were not initially court bankers in the literal

[23] Chapman, *The Rise of Merchant Banking*, 25.
[24] Ibid., 34–37. Chapman identifies two models of merchant banking, one represented by the House of Rothschild, which focused on 'pure finance,' and one epitomised by the House of Baring, which was more broadly based on general merchanting. Chapman however stresses that these features should not be overemphasised (see Ibid., 34–35.).
[25] Chapman, *The Rise of Merchant Banking*, 36.
[26] Ibid.
[27] Kathleen Burk, *Morgan Grenfell 1838-1988 : The Biography of a Merchant Bank* (Oxford: Oxford University Press, 1989), 32–33.

sense, they became court bankers in the broader sense. Put simply, they made their way into social circles in which they could meet the sovereign, or her representatives (Ministers, etc.). This was the road followed by Barings for instance. And even if they were not part of a court in the strict sense, 'it remained true that as always one thing could lead to another.'[28]

The late eighteenth century saw the arrival of a number of merchants from the continent (who would go on to become merchant bankers) in London, and in England more broadly. Many came to profit from the industrial revolution which was taking place.[29] The individuals who immigrated were often engaged in the import of textiles from England to their own towns and regions in the Continent. The Rothschilds and the Barings for instance, who were to become great nineteenth century merchant bankers, settled in England during the second half of the eighteenth century. John Baring moved to England from North Germany and settled in Exeter as a merchant of various textiles. One of his children, Francis, opened a branch in London with his brother John in 1762, and gradually established himself as a merchant banker. As for the House of Rothschild, Goethe rightly noted that it 'is rich but it has required more than one generation to attain such wealth.'[30] The Rothschilds indeed arrived in England in about 1798, when Nathan came to take advantage of the new opportunities in the booming textile industry.[31] In the early nineteenth century, another group of merchant banking families settled as

[28] Chapman, *The Rise of Merchant Banking*, 37.
[29] Interestingly, one of the reasons put forth by Ellen Wood to explain the absence of such bankers in England and their presence on the continent is that England had a highly developed domestic market contrary to many continental states, and that long-distance trade thus played a less important role. Thus England had a developed domestic banking system, but not international bankers. See Ellen Meiksins Wood, *The Pristine Culture of Capitalism: A Historical Essay on Old Regimes and Modern States* (London: Verso, 1991), 98.
[30] Goethe cited in Ferguson, *The House of Rothschild Vol. 1*, 35.
[31] Ibid., 48–49.

merchants in London, among which one finds the Bensons, Dobrées, Erlangers, Frühlings, Goschens, Hambros, Huths, Kleinworts, Schröders and Seligmans.[32] There were other merchants, not from the Continent, but from other parts of the Atlantic world, such as Brown Shipley & Co., a family firm of Irish descent who had first immigrated to the United States, and then come to London. J.S. Morgan & Co. also pursued a similar path through North America. Morton Rose & Co. was another Anglo-American house, while Morrison & Co. was a family firm of Scottish descent. However, it was the continental merchant banks that had settled in Britain who came to monopolise the business of sovereign lending until the interwar period. The interwar saw the brief rise of a few Anglo-American houses, particularly the House of Morgan, but also of many houses who originally came from German lands.[33]

Paris was an important financial centre during the nineteenth century, though it certainly became secondary to London after the Franco-Prussian War.[34] A number of key families also settled in Paris from the late eighteenth century onwards. These included a great number of French Protestant families who, due to persecutions, had been forced to live in Switzerland.[35] The Delesserts, Foulds, Hottinguers, Mallet, Périer, and Seillières all established themselves before the nineteenth century. The Rothschilds, d'Eichtal, Mirabaud, and de Neuflize emerged

[32] Lisle-Williams, "Beyond the Market," 268 fn. 25; Toshio Suzuki, *Japanese Government Loan Issues on the London Capital Market, 1870-1913* (London: The Athlone Press, 1994), 8.
[33] As we will see later, leading American private banks were often made up of families that had re-immigrated to England and established their main branch there, or were deeply connected to the Continent (e.g. Jacob Schiff from Kuhn, Loeb & Co.). On American private banking in the interwar, an excellent reference is Susie J. Pak, *Gentlemen Bankers: The World of J. P. Morgan* (Cambridge, MA: Harvard University Press, 2013).
[34] Suzuki, *Japanese Government Loan Issues on the London Capital Market, 1870-1913*, 7.
[35] Louis Bergeron, "Banquiers, Négociants et Manufacturiers Parisiens Du Directoire À l'Empire - Tome I" (Paris IV - Sorbonne, 1975), 90, 149–210. Indeed, apart from the Rothschilds, no great merchant banks came from other countries. It is however worth remembering that the House of Rothschild was the most important merchant banking house in Paris.

for their part in the nineteenth century. In any case, according to French business historians, the banks composing the *haute banque* had all been established by 1850, with the main thrust of the debate being about where to set the date between 1815 and 1850.[36] The Hottinguers provide a good example of how merchant banks established themselves. Its head, Jean Conrad Hottinguer, arrived from Zürich in 1784 to further his training as a merchant at Lecouteulx de Canteleu's firm.[37] He then founded his own bank in 1786, and later became a Baron of the French Empire in 1810. He also served as regent of the Banque de France from 1803 to 1833, a position that was passed on to his son.[38] Here, the classic path from merchant to merchant banker is repeated. In the French context, the Rothschild had uncontested supremacy within the *haute banque*, though competitors such as the Hottinguers tried to countenance them through alliances with foreign banks, like the Hopes of Amsterdam, and Barings in London. It is worth noting that though Protestants from Switzerland were numerous in French banking, a number of Germans arrived just after the fall of the first French Empire, banking families like the Gontards or Bethmans of Frankfurt and the Mendelssohns from Berlin.[39] These families however never opened a branch in the City, but simply had representatives there.[40]

The expression 'merchant bank' was of course a British one, but similar terms existed in other parts of Europe. The French spoke of the *haute banque* to refer to

[36] See Nicolas Stoskopf, "Qu'est-ce que la Haute Banque parisienne au XIXe siècle?," in *Journée d'études sur l'histoire de la Haute Banque*, 2000, 3, https://hal.archives-ouvertes.fr/hal-00431248/document.
[37] Interestingly, Lecouteulx de Canteleu also held a post as Regent of the Banque de France from 1800 to 1804, see Romuald Szramkiewicz, *Les régents et censeurs de la Banque de France nommés sous le Consulat et l'Empire* (Paris: Droz, 1974), LVI.
[38] See Bonin, *La Banque et Les Banquiers En France: Du Moyen Age À Nos Jours*, 50.
[39] Bertrand Gille, *Histoire de la maison Rothschild (vol. 1)* (Genève: Droz, 1965), 59.
[40] This was in all likelihood because they had moved with the German troops stationed in France after the fall of the Empire.

the upper banking stratum involved in sovereign lending, while the Germans had the *Handelsbank*, and the Americans, the *private bank* (and investment bank after the New Deal). While these institutions did present dissimilarities,[41] it should not be forgotten that many of them were inherently transnational as they were migrant families, or operated as alliances of families. One of the key tools of European merchant banking families was indeed their network. Marriage was one useful mean of establishing networks across Europe, as they strengthened ties either within or between banking houses.[42] The Rothschild famously married within the family. Though in the late eighteenth and first quarter of the nineteenth century Rothschilds married the members of 'other, similarly Jewish families' with whom they did business, thereafter they tended to marry other Rothschilds. As a result, out of twenty-one marriages between 1824 and 1877, fifteen were between direct descendants of Frankfurt-based Mayer Amschel Rothschild.[43] This was one of the features that the Rothschilds had in common with royal families, whom they regarded as models to an extent, though even these families were not as 'closely inbred.'[44] These marriages made for a tight knit family and strong ties across the European Continent. A direct consequence of this was the presence of multiple family members in various European capitals. One alternative to this was marriage between banking houses. For instance, the great Amsterdam house of Hope & Co. 'probably […] the richest and most powerful in Europe' in the late eighteenth

[41] Joseph Wechsberg, *The Merchant Bankers* (London: Weidenfeld & Nicolson, 1967), 10–11. For the opposite view (that they are indeed similar) see David S. Landes, "Vieille banque et banque nouvelle: La révolution financière du dix-neuvième siècle," *Revue d'histoire moderne et contemporaine* 3, no. 3 (1956): 207–208 fn. 5.
[42] See for instance the remarks in Jehanne Wake, *Kleinwort, Benson: The History of Two Families in Banking* (Oxford; New York: Oxford University Press, 1997), 134.
[43] Ferguson, *The House of Rothschild Vol. 1*, 184.
[44] Ibid. This characteristic is reflective of the continuing dynastic character of international relations in the nineteenth century (more on this in chapter 4). On the importance of dynasties for international relations until the nineteenth century see Jeroen Duindam, *Dynasties: A Global History of Power, 1300-1800* (Cambridge: Cambridge University Press, 2015).

century,[45] had sealed its fate with the London house of Barings when Peter César Labouchère, a partner at Hope & Co., married Dorothy Baring, Francis Baring's daughter.[46] The Hopes and Barings had been in contact long before this (at least since 1766), but the marriage sealed their destinies. Fortuitously, this event took place a little more than a decade before Hope & Co. became an empty shell, at the end of the Napoleonic period.[47] These marriages and the connections they created often gave merchant banks of German origin an edge over others.

But networks of a different type were essential to conduct business: those with wealthy men. They were useful in the first instance because it was these 'webs of personal connections' which provided 'means sufficient to mount armies and assemble the capital for large industrial projects.'[48] In other words, banks' networks were useful as they allowed them to mobilise large amounts of capital. Indeed, in a context where 'direct contacts between investors and borrowers were infrequent' and where investors were 'diffuse, elusive and removed from borrowers,' these intermediaries were of the utmost importance.[49] Merchant banks did not solely use their own capital in order to fund companies and sovereigns, but they relied on their wealthy clients' money. Networks of clients were established over time, particularly by penetrating the upper strata of European society, and in this respect the 'social characteristics of merchant banking dynasties' were a major asset.[50] These wealthy clients could be members of the political establishment, the bourgeoisie, and the aristocracy. Ignoring the importance of these networks and of

[45] Philip Ziegler, *The Sixth Great Power: Barings, 1765-1929* (London: Collins, 1988), 31.
[46] Ibid., 54.
[47] Ibid., 55.
[48] Siegel, *Modernity and Bourgeois Life*, 286.
[49] Andrew Richard Dilley, "Gentlemanly Capitalism and the Dominions : London Finance, Australia and Canada, 1900-14" (DPhil Thesis, University of Oxford, 2006), 39, 41.
[50] Lisle-Williams, "Beyond the Market," 245.

the funds merchant bankers could tap into has led some scholars to identify the decline of merchant banks relative to 'newer' banks much too early, as they ignored the dormant money to which merchant bankers had access and only examined their personal wealth.

By now, it has probably become clear to the reader that merchant banks were first and foremost families. And indeed, theirs was a way of life passed on in the family. The bank *was* the family, and its credit was passed on from father to son, as was noted by Walter Bagehot, the founder of *The Economist*.[51] A corollary of this fact was that the goals of merchant banks were intertwined with those of families. In fact, much of the business history on merchant banks emphasises this point, notably by discussing merchant banks as dynasties (e.g. House of Rothschild, House of Morgan, House of Baring, etc.). As families, these banks were not only profit-seekers, but also status-seekers.[52] And here I do not simply mean that they sought status simply to improve their position on the market; they sought it as an end in itself. Histories of early modern bankers often present similar arguments. For instance, writing about the Fuggers of Augsburg from the late medieval period to the seventeenth century, one scholar states that researchers should be sensitive to the 'social norms that were of fundamental importance' to the estate society of the time, further adding that '[u]nbridled striving for profit most certainly was not one of these norms.'[53] For instance, Anton Fugger remarked that his acquisition of real-

[51] Walter Bagehot cited in Wake, *Kleinwort, Benson*, 107.
[52] For an interesting take on the role of status in social stratification see Frank Parkin, *Marxism and Class Theory: A Bourgeois Critique* (Taylor & Francis, 1979).
[53] Mark Häberlein, *The Fuggers of Augsburg: Pursuing Wealth and Honor in Renaissance Germany* (Charlottesville: University of Virginia Press, 2012), 6. On the broader question of the social acceptability of pursuing one's interests, see the classic Albert O. Hirschman, *The Passions and the Interests: Political Arguments for Capitalism before Its Triumph* (Princeton, NJ: Princeton University Press, 2013).

estate was not 'for profit's sake, but for honour's sake.'[54] The honour of the family's 'name and lineage' was the key preoccupation of these early modern bankers, and while accumulating wealth could certainly help, it was not the end goal.[55] In the case at hand, merchant bankers who were first or second generation immigrants or, alternatively, members of discriminated religious minorities, were not only looking to make money, but they sought honour, prestige, and social recognition. Here, one is reminded of the words of the lead partner at Hope & Co., who wrote in a letter in 1806 'I wish that the house might always have as its motto "honour and profit"; but if either of these words must be erased, I would that it be the latter.'[56]

By replacing merchant bankers in their broader historical context in which familiarity with the court framework was the norm, it is easier to understand that they might have known sovereigns in a rather different way from present-day bankers. Moreover, understanding their social specificities reveals the obvious fact these merchant bankers were pursuing a broad variety of goals, as families and as banks. Put differently, being a top merchant bank 'was a way of life as much as a way of business.'[57] Sovereign lending was but one of the merchant bankers' activities; to carry it out, they relied on the same set of skills they used in the rest of their undertakings as banks and families.

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[54] Häberlein, *The Fuggers of Augsburg*, 208–10, 222.
[55] Ibid., 222.
[56] Marten G. Buist, *At Spes Non Fracta: Hope & Co. 1770-1815* (The Hague: Nijhoff, 1974), 279. This is also reminiscent of Fritz Stern's comment about the famous banker to Bismarck, Gerson Bleichröder, who 'thirsted after power and profits – and after what both were to give him: respectability and acceptance.' See Fritz Stern, *Gold and Iron* (New York: First Vintage Books, 1979), xvii. This status-seeking was also broadly shared by the rising European bourgeoisie, the *nouveaux riches* – a term imported from French in the Napoleonic period. See J. Mordaunt Crook, *The Rise of the Nouveaux Riches: Style and Status in Victorian and Edwardian Architecture* (London: John Murray, 1999), 7.
[57] Burk, *Morgan Grenfell 1838-1988*, 28.

II. What do merchant bankers do?

Merchant bankers were active in four key financial activities: trade, central banking, government advising, and sovereign lending. Indeed, initially many were active in the commerce of various goods, from precious metals, to metallic moneys, raw materials, produce of colonial origin, and textiles.[58] Typically, merchant bankers 'gradually changed from being primarily a merchant to acting primarily as a merchant banker.'[59] As merchants, their business revolved around issues of trade as is well noted by Landes when he claims that 'most of them, during this period as in earlier times, came to banking as merchants.'[60] This is well illustrated by the House of Morgan, who initially started out as a seller of American cotton in Lancashire, under the name Peabody, Morgan & Co.

With time however, some merchants realised that the greatest need in international trade was for 'someone to fill the gap between the buyer and seller.'[61] In other words, if two individuals and companies in different geographical areas were ready to buy and sell goods to each other, there was always an issue of trust; the seller would not send his goods without a guarantee of obtaining payment, and the buyer would not send money prior to receiving goods. There was a need for a middleman in whom both parties had confidence. This problem was the basis for the business of acceptances. Merchant banks 'would accept the bills of exchange issued by one party and guarantee to pay that amount to the other.'[62] The key to do this was to have a good name, a very clearly understood requirement among merchant bankers who realised that '[i]t was easier to sell one's signature than a

[58] Bonin, *La Banque et Les Banquiers En France: Du Moyen Age À Nos Jours*, 49.
[59] Burk, *Morgan Grenfell 1838-1988*, 5.
[60] Landes, "Vieille banque et banque nouvelle," 208. This quote and others in French and German have been translated by the author.
[61] Ziegler, *The Sixth Great Power*, 20.
[62] Ibid.

bale of silk.'[63] As they did more and more business, they realised 'they could borrow more cheaply than could other merchants,' and with this newfound ability, they started guaranteeing transactions between buyers and sellers. The way in which they would do this was by accepting one merchant's bill of exchange for a small commission, and insure the payment of goods upon arrival at their destination. By putting their name on a bill and thus guaranteeing it, they gave it credibility.[64] If things went wrong, they had to pay for the bill themselves. This was a form of short-term finance for international trade and constituted a 'vital function of merchant banks in international finance from the late eighteenth to the early twentieth century.'[65]

In the business of acceptances, as 'honest brokers' between two parties,[66] merchant bankers' reputation was critical. A good reputation was built on strong networks, confidence, and an excellent name. It was clear to a merchant banker that 'he who stole his purse stole not trash perhaps, but certainly something of secondary importance,' because the true foundations of his wealth rested on his reputation, which he would have preserved by sacrificing 'the whole of his house's profit.'[67] More specifically, the reputation of a merchant bank essentially rested on the shoulders of its senior partner. Another reason why reputation was central is because of the way business was done, particularly in London. A lot of the dealings of merchant bankers rested on trust, as London's custom of verbal contracts was 'one of the planks of its reputation.'[68]

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[63] Ibid., 30; Wechsberg, *The Merchant Bankers*, 11–12.
[64] Ziegler, *The Sixth Great Power*, 30.
[65] John Orbell, "Private Banks and International Finance in the Light of the Archives of Baring Brothers," in *The World of Private Banking*, ed. Youssef Cassis and Philip Cottrell (London: Ashgate, 2009), 141–58; Landes, "Vieille banque et banque nouvelle," 208.
[66] Ziegler, *The Sixth Great Power*, 29.
[67] Ibid., 30.
[68] Paul Ferris cited in Wechsberg, *The Merchant Bankers*, 41.

Merchant bankers were also omnipresent in central banks, so much so that it is difficult to think of central banking as an activity that was in any way independent of these families until the First World War. Merchant bankers were extremely well represented in the central banks of France and Britain. In fact, this trend began as early as the late seventeenth century when the Bank of England was created and merchants of foreign extraction (many Germans, but also French Protestants) made 'substantial contributions to the capital raised to establish the Bank of England.'[69] The practice of drawing Directors from the merchants (and later merchant bankers) fossilised in tradition in the nineteenth century.

At the Bank of England, merchant bankers represented just under half of the Court of Directors. The other half were merchants. Some merchant banks were represented for over a century, while others provided directors that served for three or more decades.[70] Between 1890 and 1914, one finds familiar names on the Court of Directors, namely Baring Brothers & Co. Ltd., Brown, Shipley & Co., Antony Gibbs & Sons, Frühling & Goschen, C.J. Hambro & Co., and J. Henry Schröder, to name but a few.[71] A number of representatives of private banks and overseas institutions (e.g. the Hongkong and Shanghai Bank) were also represented among the group of twenty-six men, but joint stock banks (e.g. Midland Bank) and deposit banks more generally were formally excluded from representation.[72] For this reason, the Bank of England's Court of Directors 'operated with a world view that above all was sympathetic to the needs and risks of merchant banking,' though

[69] Elizabeth Hennessy, "The Governors, Directors, and Management of the Bank of England," in *The Bank of England: Money, Power and Influence 1694-1994*, ed. David Kynaston and Richard Roberts (Oxford: Oxford University Press, 1995), 186.
[70] Lisle-Williams, "Beyond the Market," 254.
[71] Cassis, *City Bankers, 1890-1914*, 88.
[72] Lisle-Williams, "Beyond the Market," 254; Cassis, *City Bankers, 1890-1914*, 86.

some researchers display an incredible degree of faith in their probity, claiming that they never 'took advantage of the hot tips and financial secrets' they heard.[73] Lord Revelstoke, erstwhile lead partner of Barings, expressed in what can only sound comical to the contemporary observer that 'he saw no reason to depart from the principle that members of the clearing banks and of the discount houses should not become directors.' [74] Michael Lisle-Williams reveals that this situation of dominance by the merchant bankers lasted well into the interwar period.[75]

The French case exhibits striking similarities. Jean-Conrad, the head of the Hottinguers, a prominent French banking family, was one of the 15 Regents of the Banque de France from 1803 to 1833.[76] After his time in post, his son Jean-Henri succeeded him until 1848,[77] while Rodolphe Hottinguer held the same position from 1869 to 1920. The Mallets established an even more impressive track record. Guillaume Mallet was a Regent of the Banque de France from 1800 to 1826, and was succeeded by his son Adolphe-Jacques who held the post from 1827 to 1860, himself succeeded by his own son, Alphonse, from 1860 to 1905.[78] The Rothschild entered the Banque only in 1855, when Alphonse de Rothschild obtained a seat as Regent and held it until 1905. Edouard Rothschild succeeded him until 1936.[79] The Rothschilds had been integrated quite late despite being by far the richest merchant bank. This was not least due to the fact that the Rothschilds were the first Jews to

[73] Wechsberg, *The Merchant Bankers*, 13.
[74] Hennessy, "The Governors, Directors, and Management of the Bank of England," 194–95.
[75] Lisle-Williams, "Beyond the Market," 254.
[76] Szramkiewicz, *Les régents et censeurs de la Banque de France nommés sous le Consulat et l'Empire*, LVII.
[77] Bonin, *La Banque et Les Banquiers En France: Du Moyen Age À Nos Jours*, 50.
[78] Alain Plessis, *Régents et gouverneurs de la Banque de France sous le Second Empire* (Paris: Droz, 1985), 18.
[79] Ferguson, *The House of Rothschild Vol. 1*, 82; Plessis, *Régents et gouverneurs de la Banque de France sous le Second Empire*, 421.

become Regents of the Banque, and that James de Rothschild had always technically remained a foreigner though he had lived in Paris for most of his life.[80]

The domination of central banks by merchant banking families facilitated international cooperation between these institutions. To put it simply, the presence of a Rothschild on the Court of Directors of the Bank of England and of another one on the Council of the Banque de France as Regent meant that cooperation and communication between the two institutions was likely to be smooth and effective. For instance, during the crisis of 1890 when Barings nearly went bankrupt after the default of Argentina, Rothschilds in London and Paris coordinated the transfer of £3 million in gold from the Banque de France to the Bank of England.[81]

Over the course of the nineteenth century, merchant bankers also came to give financial advice to governments and companies. In early nineteenth century Britain, a good example of this was the role played by Francis Baring as a commercial advisor to Lord Lansdowne, then Prime Minister, and his Chancellor of the Exchequer, William Pitt.[82] To take another example, at the close of the nineteenth century, George Goschen, the Chancellor of the Exchequer, relied on Lord Rothschild to arbitrate a dispute between bankers, the Treasury, and the Bank of England, stemming from the Argentine debt crisis.[83] Interestingly, Goschen himself was a merchant banker, who had also been Governor of the Bank of England. Similar relations existed in France and Germany, between bankers on the one hand,

[80] Niall Ferguson, *The House of Rothschild: The World's Banker, 1849-1999* (London: Penguin, 2000), 82–84.
[81] Ibid., 342. On the role of Rothschilds as arbitrageurs between the British-based gold standard and French-dominated bimetallic zone, see the excellent Marc Flandreau, *The Glitter of Gold: France, Bimetallism, and the Emergence of the International Gold Standard, 1848-1873* (Oxford University Press, 2004).
[82] Ziegler, *The Sixth Great Power*, 34.
[83] De Cecco, *Money and Empire*, 160.

and governments and firms on the other. For instance, in France many of the leading families held seats on boards of administration in large railway or public utility companies. The Rothschilds had 27, the Mallets 22, and the Hottinguers, 10.[84] In Germany, the banker Gerson Bleichröder had a famously close relation with Bismarck, and he advised him on numerous financial matters.[85] One of the most emblematic instances of this advisory role is certainly the place given to merchant bankers to negotiate the Young Plan on behalf of the United States, with J.P. Morgan at their head.[86]

The final area of activity was sovereign lending. In Europe, the period of upheaval that followed the French revolution put serious strain on the finances of Britain who fought the French with coalitions of continental allies and sometimes funded them, and it put a heavy burden on the French, particularly with the indemnity they had to pay after defeat. This was fertile ground for the development of merchant banking houses.[87] In Britain, Barings quickly took the lead from 1799, as in "twelve out of the next fifteen years they headed the list of successful contractors for public loans."[88] Though Barings did come out of the Napoleonic period as the leading merchant bank, others had arisen during this period, for instance N.M. Rothschild & Sons, J. Henry Schroder, Wm Brandt & Sons, and Brown Shipley & Co. In the

[84] Robert Bigo, *Les banques françaises au cours du XIXe siècle* (Paris: Recueil Sirey, 1947), 127.
[85] See the excellent monograph by Fritz Stern: Stern, *Gold and Iron*. An extra-European example can be found in the Ottoman Empire where the Camondo family (and two or three others) played a great role in organising the Sublime Porte's financial affairs. On this issue see for instance Christopher Clay, *Gold For the Sultan: Western Bankers and Ottoman Finance, 1856-1881* (London: I. B. Tauris, 2001).
[86] Kathleen Burk, "The House of Morgan in Financial Diplomacy," in *Anglo-American Relations in the 1920's: The Struggle for Supremacy*, ed. Brian J. C. McKercher (Basingstoke: Macmillan, 1991), 125–57.
[87] Chapman, *The Rise of Merchant Banking*, 4.
[88] Ziegler, *The Sixth Great Power*, 58. Though Barings had helped financed the American Wars, they were lending to their domestic government – the British government. The sums involved were much smaller than in the French Wars.

aftermath of the French Wars, France had to obtain a loan to pay its indemnity. This loan – which came in multiples tranches - came from a syndicate led by Barings and Hope & Co, and totalled a little over 450 million francs.[89] A number of French merchant banking houses, amongst which one finds Hottinguer, Lafitte and Delessert, were entrusted with chunks of the loan. Barings sold part of the loan to British investors in the form of bonds, a move that foreshadowed the direct introduction of the first foreign loan to Britain. It was in 1818 that N.M. Rothschilds introduced a £5 million loan for Prussia, in London. N.M. Rothschild, who was already banker to the Prussian ambassador Wilhelm von Humboldt, had negotiated with the envoy from the Prussian treasury, Rother.[90] The French Wars therefore propelled European merchant bankers, and particularly British ones, on the centre stage, and it led them to organise a large part of their activity around sovereign lending. Sovereign lending, was in a very clear sense, merchant bankers' specific preserve (see Table 3.1).[91] Along with the emergence of a truly international bond market, it was around this time (1820s) that a number of 'exotic and distant states' appeared on the financial markets of Europe.[92]

[89] Charles P. Kindleberger, *A Financial History of Western Europe* (London: Routledge, 2006), 220.
[90] Jean Bouvier, *Les Rothschild: histoire d'un capitalisme familial* (Paris: Editions Complexe, 1992), 71; Chapman, *The Rise of Merchant Banking*, 83; Ferguson, *The House of Rothschild Vol. 2*, xxiv; Youssef Cassis and Philip Cottrell, *The World of Private Banking* (Ashgate Publishing, Ltd., 2009), 8.
[91] Alain Plessis, "The Parisian 'Haute Banque' and the International Economy in the Nineteenth and Early Twentieth Centuries," in *The World of Private Banking*, ed. Youssef Cassis and Philip Cottrell (Farnham: Ashgate, 2009), 135–40. See also the remarks in Philip Cottrell, "London's First 'Big Bang'? Institutional Change in the City, 1858-1883," in *The World of Private Banking*, ed. Youssef Cassis and Philip Cottrell (London: Ashgate, 2009), 98.
[92] See respectively Ferguson, *The House of Rothschild Vol. 2*, xxiv; Landes, "Vieille Banque et Banque Nouvelle," 211.

Table 3.1. *Top underwriters of government debt in main financial centres, 1818-1930*

Period	Number of underwriters	Name of top underwriter
1818-1825: London	12	N.M. Rothschild & Sons
1845-1876: London	45	N.M. Rothschild & Sons
1877-1895: London	34	N.M. Rothschild & Sons
1896-1913: London	33	N.M. Rothschild & Sons
1896-1914: Paris	14	Rothschild Frères
1920-1930: New York	20	J.P. Morgan & Co.

Source: Marc Flandreau et al., 'The End of Gatekeeping', NBER Working Paper 15128 (2010), 29.

There are two important points to make regarding merchant bankers and their prominence in sovereign lending. First, merchant bankers were indispensable because the ones with a good reputation acted as seals of quality for sovereign loans (and other loans as well). While today credit rating agencies generally provide a grade to certify the finances of states and inform investors on the market, there was no such thing in the nineteenth century. During the nineteenth century and until the interwar period, sovereign lending functioned with what Marc Flandreau has called a 'regime of certification by prestigious intermediaries.'[93] To put it simply, what is meant here is that prestigious merchant banks associated their names to what they thought constituted safe sovereign debt. This was a world in which a 'few prestigious banks' wielded considerable influence, and were constrained 'by their

[93] Marc Flandreau, "Anatomy of Regime Change: Underwriters' Reputation, New Deal Financial Acts and the Collapse of International Capital Markets (1920-1935)" (Draft, Graduate Institute of International Studies and Development, Geneva, August 18, 2011), 2, http://econ.as.nyu.edu/docs/IO/21858/Flandreau_10142011.pdf; Marc Flandreau, Juan Flores, and Sebastiàn Nieto-Parra, "The Changing Role of Global Financial Brands in the Underwriting of Foreign Government Debt (1815-2010)," IHEID Working Paper (Economics Section, The Graduate Institute of International Studies, 2011), 4, http://ideas.repec.org/p/gii/giihei/heidwp15-2011.html.

need to secure and protect prestige.'[94] The number of banks at the top of the reputational hierarchy was small, and bankers themselves had a sense of this hierarchy, nicely captured when James de Rothschild speaking to Duff Green, an American agent, described himself as 'the man who is at the head of the finances of Europe.'[95] This phrase illustrates, with some exaggeration, the pyramidal conception and nature of nineteenth century international finance. Investors therefore used merchant bankers' names as an indication of sovereigns' creditworthiness.[96] Even when they formed loan syndicates (*ad hoc* groups of merchant banks constituted for specific sovereign debt issues), there was always a prestigious merchant banking house that would lead this syndicate.[97] It is in this sense somewhat misleading to think of nineteenth century sovereign lending as something which an amorphous group of 'investors' did. Thus, in order to understand which states obtained capital and on what basis, merchant bankers are the primary actors one needs to study.

The second point I wish to make is that for merchant bankers to maintain their good reputation, it was necessary to lend to good borrowers who would not default on them. In fact, good banking houses went so far as to support borrowers' bonds whose yields were falling, just so their bank would maintain its good name. When they underwrote bonds, merchant bankers sometimes committed to maintaining the value of a bond at a certain price.[98] If anything, investors did not

[94] Flandreau, "Anatomy of a Regime Change," 2–3. By contrast, research shows that there is no such relation nowadays. See Flandreau, Flores and Nieto-Parra, "The Changing Role of Global Financial Brands."
[95] Burk, *Morgan Grenfell 1838-1988*, 6.
[96] Flandreau and Flores, "The Peaceful Conspiracy," 221–23; Mosley, *Global Capital and National Governments*, 260–61; Aggarwal, *Debt Games*, 20.
[97] Chapman, *The Rise of Merchant Banking*, chap. 9.
[98] On underwriting, see Flandreau, Flores, and Nieto-Parra, "The Changing Role of Global Financial Brands"; Flandreau et al., "The End of Gatekeeping"; Anders L. Mikkelsen, "Dealing with Risk: Underwriting Sovereign Bond Issues in London 1870-1914," 2014, http://www.eabh.info/fileadmin/user_upload/documents/eabhpapers14_06.pdf.

react to news of a country's behaviour, about which they did not know a great deal, 'but rather to the presence (or absence) of a prestigious underwriter.'[99] Becoming banker to a sovereign thus required a certain amount of trust and gaining an appropriate acquaintance of sovereign borrowers. For this reason, long-lasting relations with sovereign borrowers were very useful.[100] As a result, it was not uncommon for merchant bankers to have spheres of influence, as they tried to establish strong business relations in order to build trust. The Rothschilds had a famously long-lasting relation with Brazil, which developed out of the political ties between Britain and Portugal.[101] Likewise, Barings handled multiple debt issues for the government of Argentina. But in order to know sovereigns and how creditworthy they were, what information could the merchant bankers turn to?

III. Information about sovereigns' finances in the early nineteenth century

Merchant bankers rose and lived in a world in which quantitative information about sovereigns was largely absent.[102] This implies that during the eighteenth century and until the second half of the nineteenth, merchant bankers had to make judgements to lend to sovereigns based on something other than statistical information about states' finances.[103] In this sense, there is a great deal of continuity

[99] Flandreau and Flores, "The Peaceful Conspiracy," 223.
[100] See for instance the comments in Rui Pedro Esteves, "Quis Custodiet Quem? Sovereign Debt and Bondholders' Protection before 1914" (Discussion Paper 323, University of Oxford, April 2007), 4, http://www.economics.ox.ac.uk/department-of-economics-discussion-paper-series/quis-custodiet-quem-sovereign-debt-and-bondholders-protection-before-1914.
[101] Ferguson, *The House of Rothschild Vol. 1*, 132.
[102] For an analysis of the situation in the preceding period (sixteenth and seventeenth century), see Laurence Fontaine, *The Moral Economy: Poverty, Credit, and Trust in Early Modern Europe* (Cambridge: Cambridge University Press, 2014); Mark Häberlein, *The Fuggers of Augsburg: Pursuing Wealth and Honor in Renaissance Germany* (Charlottesville: University of Virginia Press, 2012); Richard Ehrenberg, *Capital and Finance in the Age of the Renaissance: A Study of the Fuggers and Their Connections* (New York: Augustus M. Kelley, 1963).
[103] As for the broader group of investors, they mostly relied on their trust in the banking houses themselves. Regarding the eighteenth century capital market in Amsterdam, Riley claims that 'borrowers appear generally to have understood that there were only a few houses that could handle

with Renaissance finance, when 'even the largest Italian or South German company was unable to find out with certainty the true value' of the security a Prince might offer on a loan, and when 'the task of estimating the real value of different [princely] loans was too much even for the largest isolated firms.'[104] Likewise, regarding the eighteenth century Amsterdam market, it is an understatement to say that 'much vital information remained unavailable' to merchant bankers and investors.[105] In fact, it appears that '[n]either the political nor the commercial news available in Dutch periodicals was sufficient to evaluate credit worthiness among debtor states.' [106] The sources of information that did exist, such as the *Amsterdamsche courant*, *Maandelijkse nederlandsche mercurius*, *Nederlandsche jaarboeken* (later *Nieuwe nederlandsche jaarboeken*), and the *Prijs-Courant der effecten*, contained information about the price of securities, but not about the sovereigns that borrowed. In addition, the rare political economy tracts and traveller accounts of foreign kingdoms that circulated at the time contained 'no trustworthy information,' and there is no evidence that bankers or investors actually consulted them.[107] As noted by Riley, this led to rather curious situations, for instance when Britain was considered to be a weaker debtor than France during the 1770s and 1780s, though it was the only country in Europe using procedures that 'permitted accurate annual budget statements.'[108] More broadly, sovereign bond yields of the

issues competently' and goes on to describe the importance of these houses to the sovereign bond market, see Riley, *International Government Finance and the Amsterdam Capital Market, 1740-1815*, 42–44. This pattern is reminiscent of the observations of Flandreau and Flores regarding the nineteenth century London market. See particularly Marc Flandreau and Juan H. Flores, "The Peaceful Conspiracy: Bond Markets and International Relations During the Pax Britannica," *International Organization* 66, no. 2 (2012): 211–41; Marc Flandreau, Juan Flores, and Sebastiàn Nieto-Parra, "The Changing Role of Global Financial Brands in the Underwriting of Foreign Government Debt (1815-2010)," Graduate Institute Working Paper (Economics Section, 2011).

[104] Ehrenberg, *Capital & Finance in the Age of the Renaissance*, 319–20.

[105] Riley, *International Government Finance and the Amsterdam Capital Market, 1740-1815*, 38.

[106] Ibid., 39.

[107] Ibid., 38–40.

[108] Ibid., 39–40. Regarding accounting, Riley mentions that even The Netherlands, generally considered to be financially more advanced at the time, did not have the same accounting clarity.

time show the relatively rule-of-thumb approach that the Dutch investing public had to estimating creditworthiness. In 1783, a first group of established borrowers (e.g. Austria, Denmark, France) hovered around four per cent interest rate, while another set of more recent borrowers stood at about five per cent (e.g. Poland, the United States).[109]

In a similar way, the early nineteenth century was a financial environment with very little statistical information about the health of sovereigns' finances and other indicators that might allow one to estimate their creditworthiness. Two historians describe the content of the two leading stock market compendia of the early nineteenth century, *Every Man his Broker* and Fortune's *Epitome of the Stocks and Public Funds*, as 'shockingly thin' as far as foreign bonds were concerned.[110] In the three clippings from *Every Man* presented in Figure 3.1 (below), the most information one can obtain about sovereigns is a vague number representing the total debt ('the whole debt is about...').[111] In fact, most of the other statements on foreign bonds in this specific issue of *Every Man* contain no information of sovereigns' level of indebtedness – the selected clippings here are the 'best' ones. A similar case can be made regarding *Fortune's Epitome*. In the 1833 edition, the author seems to have covered up the absence of quantitative information about Spain with a long lament worth quoting at length:

> Oh, Spain! who hast bartered thy former heroic valour and chivalric prowess for beads, relics, and pilgrimage, where are now thy gains? Where is the noble Castilian blood that once flowed in thy veins? A prey to factions, distracted by wavering counsels, intolerance and persecution

However, according to recent literature on national accounting, it appears that Riley overstates British advances in national accounting. See André Vanoli, *A History of National Accounting* (Oxford: IOS Press, 2005), 3–11.

[109] Tomz, *Reputation and International Cooperation*, 44.

[110] Marc Flandreau and Juan H. Flores, "Bonds and Brands: Foundations of Sovereign Debt Markets, 1820–1830," *The Journal of Economic History* 69, no. 3 (2009): 660.

[111] According to Mosley, even later in the century (1880-1914), the few prospectuses that were issued for loans – this was not the norm – contained the same basic information. See the comments in Mosley, *Global Capital and National Governments*, 290.

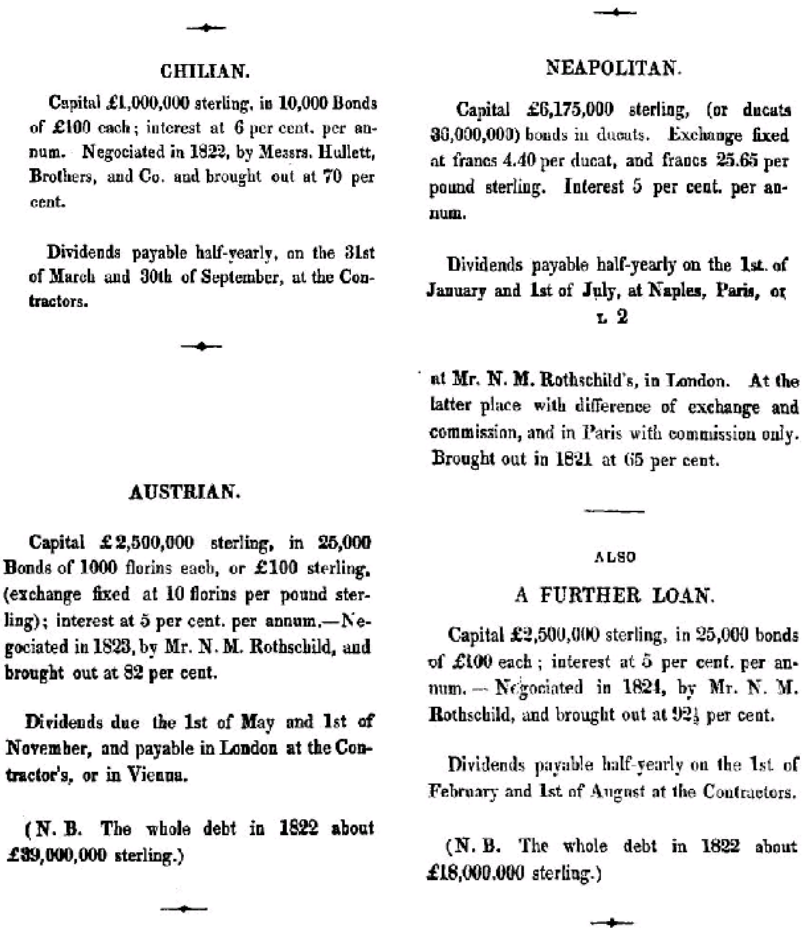
> guiding thy steps, where are thy hopes of peace? Why didst thou forsake the improvement and working of thy fleece to run after the gold and silver of the New World? Why didst thou neglect the valuable productions with which an all-bountiful Being had blessed thy own soil, for the luxurious exotics of the Indies and the uncertain tenure of a distant land? Why, even now, dost thou not gather thy sons around thee, and re-establish harmony and happiness in the bosom of thy family.[112]

Considering that this was the information available about Spain (not even some distant South American newly-founded state) in one of the two best stock market compendia of the time – the title of which includes the words 'containing every necessary information' – it is safe to conclude that in the early nineteenth century, 'investors could not tell how governments were doing,'[113] at least not in any systematic way based on numerical evidence.

[112] Thomas Fortune, *Fortune's Epitome of the Stocks and Public Funds, Containing Every Necessary Information for Perfectly Understanding the Nature of Those Securities and the Mode of Doing Business Therein: With a Full Acount of All the Foreign Funds and Loans*, 13th ed. (London: J. J. Secretan, 1833), 121. This excellent passage was brought to my attention in footnote 11 of an early working paper version of Flandreau and Flores, "Bonds and Brands," retrievable at https://www.princeton.edu/~pcglobal/conferences/globdem/papers/Bonds_and_Brands14.pdf .

[113] Flandreau and Flores, "Bonds and Brands," 660.

Figure 3.1. *Debts of the Kingdom of Naples, Austria, and Chile*



CHILIAN.

Capital £1,000,000 sterling, in 10,000 Bonds of £100 each; interest at 6 per cent. per annum. Negociated in 1822, by Messrs. Hullett, Brothers, and Co. and brought out at 70 per cent.

Dividends payable half-yearly, on the 31st of March and 30th of September, at the Contractors.

AUSTRIAN.

Capital £2,500,000 sterling, in 25,000 Bonds of 1000 florins each, or £100 sterling, (exchange fixed at 10 florins per pound sterling); interest at 5 per cent. per annum.—Negociated in 1823, by Mr. N. M. Rothschild, and brought out at 82 per cent.

Dividends due the 1st of May and 1st of November, and payable in London at the Contractor's, or in Vienna.

(N. B. The whole debt in 1822 about £39,000,000 sterling.)

NEAPOLITAN.

Capital £6,175,000 sterling, (or ducats 36,000,000) bonds in ducats. Exchange fixed at francs 4.40 per ducat, and francs 25.65 per pound sterling. Interest 5 per cent. per annum.

Dividends payable half-yearly on the 1st. of January and 1st of July, at Naples, Paris, or

L 2

at Mr. N. M. Rothschild's, in London. At the latter place with difference of exchange and commission, and in Paris with commission only. Brought out in 1821 at 65 per cent.

ALSO

A FURTHER LOAN.

Capital £2,500,000 sterling, in 25,000 bonds of £100 each; interest at 5 per cent. per annum. — Negociated in 1824, by Mr. N. M. Rothschild, and brought out at 92¾ per cent.

Dividends payable half-yearly on the 1st of February and 1st of August at the Contractors.

(N. B. The whole debt in 1822 about £18,000,000 sterling.)

Source: George G. Carey, *A New Guide to the Public Funds: Or, Every Man His Own Stock Broker* (London: D. B. Woodward, 1825), 118, 120, 125. [114]

This was even truer for lay-investors than it was for bankers, the proof being the infamous case of Poyais, a fictitious country that was able to borrow on the London market in the first half of the nineteenth century. [115] This inexistent country succeeded in borrowing at rates that were similar to the very real countries of Chile or Colombia. The story starts in 1820, when a Scottish adventurer by the name of

[114] George G. Carey, *A New Guide to the Public Funds: Or, Every Man His Own Stock-Broker* (London: D. B. Woodward, 1825), 118, 120, 125. This set of clippings were brought to my attention in Flandreau and Flores, "Bonds and Brands," 661. This sample is not representative in the sense that most of the other clippings regarding foreign funds in this issue of *Every Man* contain *no* information on sovereigns' indebtedness.

[115] David Sinclair, *The Land That Never Was: Sir Gregor MacGregor and the Most Audacious Fraud in History* (London: Headline Book Publishing, 2003).

Gregor MacGregor claimed to have been granted a concession of 8 million acres by the Mosquito King, in what today would be Honduras and Nicaragua. In *Sketch of the Mosquito Shore, including the Territory of Poyais*, published by a certain Thomas Strangeways to build up the financial hype leading to the bond issue of Poyais, MacGregor was given the title 'Cazique of Poyais.' In October 1822, MacGregor raised £200,000 on the London market at 6 per cent interest. It was only in August 1823 that the fraud was exposed. Though as we saw in the last chapter, investors often used respected bankers as a sign of credit worthiness, some did not, and the scarce and inadequate information they had sometimes made their gambles disastrous.

The type of information available to bankers in the early nineteenth century casts heavy doubts on the only source, to my knowledge, which claims in multiple instances (albeit without references) that merchant banks had 'access to data regarding national political economic conditions,' that they 'demanded information about the political and economic condition in borrowing nations,' or yet still that they demanded evidence of the 'ability to pay, as well as information about current government revenues and expenditures.'[116] The brief account I have provided here may explain why for instance in Mosley's study of 70 sovereign loans in the period from 1880 to 1914, about half of the negotiations between bankers and sovereigns contained literally no discussion of debts and deficits – a mind-boggling fact.[117] The fact that this sample concerns loans from the very end of the nineteenth century and early twentieth century is even more troubling. In Chapter 6, we will see that the availability of quantitative information increased slowly from the 1840s onwards, and more generally in the second half of the nineteenth century, but that

[116] Mosley, *Global Capital and National Governments*, 262–63.
[117] Ibid., 290.

merchant banks were not at all involved in this process, and that they made no systematic use of this new information.

III. Conclusion

In this chapter, I have sought to shed light on three questions: who the merchant bankers were, what they did, and what information about sovereigns' finances was available to them. Merchant bankers were continental, not to say Germanic, in origin and they established themselves in London, and to a lesser extent Paris, in the late eighteenth and early nineteenth century. Merchant bankers built networks across Europe, either by marrying within their own family as the Rothschilds did, or by marrying with other banking families, as in the case of Barings and Hopes. This familial structure is a key point I have sought to underline. The overlapping of families with banking firms created a situation in which the goals of both were largely intertwined. For instance, as immigrants and sometimes as part of persecuted religious minorities, these families sought respect, social recognition, and status, not simply profit. Though under-researched, the familial nature of nineteenth century financial firms is key to grasp how they behaved, and particularly as I will expose in the next chapter, to understand the types of knowledge they relied on.[118]

The second section illustrated the omnipresence of merchant bankers in nineteenth century international finance, from trade to sovereign lending and central banking. It particularly underlined the importance of merchant bankers'

[118] Kristine Bruland and Patrick O'Brien, *From Family Firms to Corporate Capitalism: Essays in Business and Industrial History in Honour of Peter Mathias* (Oxford: Clarendon Press, 1998); Harold James, *Family Capitalism: Wendels, Haniels, Falcks, and the Continental European Model* (London: Belknap Press, 2006). For a brief discussion regarding the Rothschilds, see Niall Ferguson, "The Rise of the Rothschilds: The Family Firm as Multinational," in *The World of Private Banking*, ed. Youssef Cassis and Philip Cottrell (Farnham: Ashgate, 2009).

reputation to their activities in trade and finance. It was their reputation that made them central to international trade as they constituted trustworthy intermediaries between buyers and sellers across the globe. Likewise, it was their reputation that made them critical players in sovereign lending, their name acting like a credit rating for the debt of sovereigns about which the public knew next to nothing. The interesting question, and the one most relevant to this thesis, is how the merchant bankers themselves knew sovereigns.

The third and final section exposed the extremely poor information about sovereigns' finances available to merchant bankers in the late eighteenth century in Amsterdam, and in the early nineteenth century in London. From vague estimates of debt to long diatribes against a specific country, investment manuals certainly did not contain 'every necessary information' presumably required for investment. In fact, they contained very little valuable information. The information that did exist was of questionable accuracy. One can only conclude, along with the rest of the literature, that investors and bankers could not tell how sovereigns were doing in financial terms. As one can probably assume that merchant bankers did not throw their money around with no purpose or indication of its eventual return, the simple question that remains is what type of knowledge did merchant bankers use to know sovereigns?

Chapter 4. Gentility, merchant bankers and sovereigns

For a number of readers, gentility may appear to be an unusual starting point for a discussion about sovereign lending. And indeed, one can legitimately ask how manners could be relevant to the study of international relations, apart from teaching one how to avoid looking like a fool at a diplomatic banquet. And yet, eighteenth century thinkers like Burke thought that manners were "of more importance than laws"[1] and contemporary historians like J. G. A. Pocock have claimed that manners, especially from the eighteenth century onwards, emerged as a political category distinct from law and ethics.[2] Pocock singles out jurisprudence as the 'matrix of both the study and the ideology of manners,' and indeed it was in the second half of the seventeenth and in the first half of the eighteenth century that jurisprudence, whether it be based on bilateral treaties or court ceremonial, became critically important to international relations. To drive the point home, it is certainly worth underlining that seventeenth and eighteenth century philosophers like Edmund Burke and John Locke, lawyers such as Christian Wolff and Samuel von

[1] Burke, Letters on Regicide Peace (1796), cited in Anna Bryson, *From Courtesy to Civility: Changing Codes of Conduct in Early Modern England* (Oxford: Oxford University Press, 1998), 43.

[2] John G. A. Pocock, "Virtues, Rights, and Manners: A Model for Historians of Political Thought," *Political Theory* 9, no. 3 (1981): 364–66. There is an interesting link between the rising interest in manners in eighteenth century political thought, and the development of an interest in the habits of state interaction, also (international) manners of sorts. The study of these state habits notably took the form of a growing body of work on international treaties – for more see the discussion on international treaties in Chapter 2. On manners see Marvin B. Becker, *Civility and Society in Western Europe, 1300-1600* (Bloomington: Indiana University Press, 1988); Ranum, "Courtesy, Absolutism, and the Rise of the French State, 1630-1660"; Roosen, "Early Modern Diplomatic Ceremonial." See also volume 57 of the *Journal of Modern History*. Regarding manners at catholic courts, see Jeroen Duindam, *Vienna and Versailles : The Courts of Europe's Major Dynastic Rivals, 1550-1780* (Cambridge: Cambridge University Press, 2003). For protestant courts, see Vec, *Zeremonialwissenschaft im Fürstenstaat*. On the United States, see Stephen Mennell, *The American Civilizing Process* (Cambridge: Polity, 2007).

Pufendorf, as well as ambassadors like François de Callières, wrote extensively about manners.[3] For some, like Pufendorf, courtesy was an important question in the context of ceremonial precedence at the various European courts,[4] while for ambassadors like de Callières, courtesy was a key practical tool for ambassadors stationed in foreign courts.

Since the 1980s, scholars in social sciences and history have gradually returned to the study of manners and tastes. The 1980s witnessed the publication of the English translation of Norbert Elias' *The Civilizing Process*, which analysed the critical role of manners in the development of court societies and the formation of modern states.[5] Pierre Bourdieu's *Distinction* was also published in English in the 1980s and still constitutes one of the most highly regarded theoretical statements on the importance of tastes and manners in social stratification.[6] In imperial history, Cain and Hopkins' seminal work *British Imperialism* developed the concept of 'gentlemanly capitalism' and used it to emphasise the prominent place of financiers in British imperialism.[7] It notably relied on a thorough discussion of 'the British gentleman' and of his revival in the nineteenth century. The work of Cain and Hopkins is rather close to the topic under scrutiny in the present thesis and this

[3] These writings on manners were sometimes part of political writings on education, which were for a long time central to political theory. On political thought and education, see the interesting piece by Axel Honneth, "Education and the Democratic Public Sphere: A Neglected Chapter of Political Philosophy," in *Recognition and Freedom: Axel Honneth's Political Thought*, ed. Jonas Jakobsen and Odin Lysaker (Leiden: Brill, 2015), 17–32.
[4] Manfred Beetz, *Frühmoderne Höflichkeit: Komplimentierkunst und Gesellschaftsrituale im altdeutschen Sprachraum* (Stuttgart: J. B. Metzler, 1990), 123.
[5] Elias, *The Civilizing Process*. There are a few references to Elias and manners in IR literature in Guillaume Devin, "Norbert Elias et l'analyse des relations internationales," *Revue française de science politique* 45, no. 2 (1995): 305–27; Andrew Linklater, *Critical Theory and World Politics: Citizenship, Sovereignty and Humanity* (London: Routledge, 2007).
[6] Pierre Bourdieu, *Distinction: A Social Critique of the Judgement of Taste*, (Routledge, 2010). In many cases, these sociological studies were either investigations into how structures are translated in day-to-day interaction between actors, as in Bourdieu's case, or inquiries into how agents 'escape' structural determinants and forces in everyday life, for instance Michel De Certeau, *The Practice of Everyday Life*, 3rd edition (Berkeley, CA: University of California Press, 2011). See particularly his discussion of Bourdieu and Foucault on pp. 45-60.
[7] Cain and Hopkins, *British Imperialism*.

suggests that gentility is a potentially very fruitful angle to deal with questions of international finance, and thus, with the issue of sovereign lending as well. I would even add that there is something rather odd in limiting the analysis of gentility, and of manners more broadly to a specific European country because most recent histories of manners emphasise the fact that there were very similar developments across Europe in the early modern and modern periods.

In the previous chapter, I showed how merchant bankers became one of the centrepieces of nineteenth century international finance, and particularly sovereign lending. What is puzzling is that these merchant bankers emerged and lived in a world with no statistics and very little information available about states' finances. This situation only gradually changed in the second half of the nineteenth century. The question before us is how these bankers knew sovereigns at all; what form of knowledge did they use? In order to make decisions to lend, they had to know sovereigns in one way or another. The claim I will advance in the next pages is that merchant bankers relied on 'gentility' to know sovereigns. Before I go any further, it is worth pausing to make two points. First, I am *not* claiming that gentility was a tool in the sense of a scale, with which bankers evaluated sovereigns' credit worthiness.[8] It was quite simply the main form of knowledge that merchant bankers used to know sovereigns (at all). Second, this claim does not entail that merchant bankers were entirely oblivious to statistical information once it appeared, but that it was not central to their thinking and knowledge of sovereigns.

[8] Claims to this effect exist, but mostly in the context of colonial lending or of international lending that was not fully sovereign, as in the cases of China or Egypt (see Ibid.). Indeed, though Cain and Hopkins' book is about British imperialism, it is worth noting that they never discuss lending to European powers, although they discuss Latin American powers like Argentina.

In order to substantiate my claim, I proceed in two steps. To begin with, I give a historical overview of how gentility became a critical form of knowledge in international relations from the Renaissance to the eighteenth century, focusing particularly on its importance for diplomats. Secondly, I explain how nineteenth century merchant bankers tried to acquire gentility to navigate their social lives and to know sovereigns.

I. Gentility as a form of knowledge

Before the modern era, engaging with sovereigns often meant engaging with a person: *the* sovereign herself. In the late medieval and early modern period, court societies emerged around sovereigns, and to get to the sovereign and to know her, one had to be where the sovereign resided, namely at the court.[9] In this context, there was a specific form of knowledge one had to acquire to be part of those courts and to interact with the sovereigns who were their loci. The required form of knowledge was 'gentility,' also called courtesy and civility at different points in history. In this thesis, I use the term gentility for the sake of clarity, except when I am discussing the history of this form of knowledge in the next few pages. Norbert Elias famously drew the link between the word courtesy, (*courtoisie* in French and *Hövescheit* or *Höflichkeit* in German) which emerged in the late medieval era, and the court (*cour* in French, and *Hof* in German).[10] Courtesy was the type of conduct one should adopt at the court, where the sovereign was. This comprised manners, bodily conduct, and specific ways of speaking. The importance of manners to social life at the time can hardly be overstated and is illustrated by the late medieval motto

[9] In the early modern period, courts were defined in Furetière's and Zedler's dictionaries as 'the residence of a king or sovereign prince.' It was also sometimes defined as 'the officers and the suite of a prince' (see Duindam, *Vienna and Versailles*, 3).
[10] Elias, *The Civilizing Process*, 50.

'Manners maketh man.'[11] Historians disagree on the question of when precisely this type of conduct emerged, but there is broad consensus on the fact that it starts somewhere in the late medieval period.

Norbert Elias traces it to the twelfth and early thirteenth century, when newly emerging court societies implied strong competition and conflict among courtiers who vied for the king's attention. This engendered a very restricted and codified type of behaviour: courtesy.[12] In any case, researchers agree on the existence of a discontinuity in the *types* of manners prevalent at the court around the early modern period.[13] Indeed, 'royal courts in the earlier Middle Ages looked quite different'; they rarely consisted of a royal residence, where a king was 'surrounded by his family and advisors,' receiving 'guests, ambassadors and petitioners.'[14] Instead, the sovereign, for instance the German king 'exercised his authority while travelling about the country.'[15] But the Renaissance is thought to be of specific importance, not only because of more sedentary courts, but particularly because of the increase in the number of manuals of courtesy and the fact that for the first time, these manuals assembled a number of rules of courtesy

[11] Bryson, *From Courtesy to Civility*, 2.
[12] The strength of this structural argument is that it can account for the refinement of manners, speech, and the like, not only in Europe but also in the Middle East and in Asia. However, in a recent study of the origins of courtliness, Stephen Jaeger finds similar patterns of behaviour a century before the social structures of feudal courtly societies actually emerge. This is problematic for Elias' argument, which holds that manners and the like are the product of specific social structures. Instead, Jaeger contends that it was the first German kings and Holy Roman Emperors, especially Otto I and Otto III, which developed standards of courtliness. This happened as bishops, particularly Brun of Cologne, were brought under the helm of the Holy Roman Empire, which relied on them as high-ranking administrators. In this light, courtesy is 'in origin an instrument of the urge to civilizing, of the forces in which that process initiates, and not an outgrowth of the process itself.' There is unfortunately little research on this topic, but it would seem that courtesy does not merely arise as a response to new social structures, but rather precedes them as it originates in the normative intentions of a number of rulers and bishops. See Jaeger, *The Origins of Courtliness*, 7–9.
[13] On the late medieval period see Aldo Scaglione, *Knights at Court: Courtliness, Chivalry, and Courtesy from Ottonian Germany to the Italian Renaissance* (Berkeley, CA: University of California Press, 1992).
[14] Jaeger, *The Origins of Courtliness*, 19.
[15] Ibid.

previously scattered in various poems and mnemonic verses.[16] In his seminal work Norbert Elias gives great credit to Erasmus' treatise *De civilitate morum puerilium* published in 1530, for enshrining a new standard of manners, using the word civility rather than courtesy.[17] For Elias, this constitutes a shift away from the simpler requirements of medieval courtesy. The simplicity of the prior medieval standard can be summed up with one illustrative example from Tannhäuser's *Hofzucht* which goes: "If a man snorts like a seal when he eats, as some people do, and smacks his chops like a Bavarian yokel, he has given up on all good breeding."[18] By contrast to these prescriptive phrases, Renaissance manuals such as Erasmus' are comments on particular social situations, with no strict binary good or bad way of behaving, but rather, a range of behaviour that expresses more or less civility.[19] This new conception of manners, entails a much greater need for observation of others in order to know how to act. In sum, emerging in the sixteenth century, greater differentiation and increased observation (rather than simple rule-following) are the two distinguishing features of civility.

It is worth pausing at this point because this is where my analysis departs from Elias'. It is rather telling that Elias chose Erasmus' treatise as the starting point for a new era in the development of manners. Erasmus, as a scholar and cleric, occupied a social position and function generally concerned with education and accordingly, wrote for a broad audience. His manual was indeed very popular, undergoing nearly one hundred and thirty editions in a hundred years. However, at about the same

[16] The invention of printing is of course linked to the rise and dissemination of publications more generally.
[17] Elias, *The Civilizing Process*, 43.
[18] Tannhäuser cited in Ibid., 51.
[19] Ibid., 62–63.

time, just two years before his book was published in 1530, Baldassare Castiglione wrote and published another treatise entitled *Il Cortegiano*.[20] There were one hundred and eight editions of this book in less than a century, coming close to Erasmus' record. As an ambassador himself, it is not surprising that Castiglione's book is much more clearly directed at courtiers than at the education of the nobility more broadly. This book, rather than being subsumed to the general style of civility manuals of the kind represented by Erasmus' treatise, constitutes the birth of a different strand of literature, directed at professionals of a sort, courtiers, and not at noble offspring in general.

Until around the mid-seventeenth century and arguably until even later,[21] his manual had a tremendous impact on European courts. His book was in some sense the frontrunner of a whole genre about the function of ambassador that would gain importance in the seventeenth century. And in fact, the first translators of *The Book of the Courtier* were often ambassadors, as in the case of the English translation, produced by the English ambassador to Paris.[22] The book actually appears to have been much more influential than Erasmus' on the later development of civility writings. Many later writers about civility such as Eustache de Refuge, Baltasar Graciàn, Nicolas Faret, Jacques du Bosc, Antoine de Courtin used Castiglione's treatise as inspiration and owned the book personally.[23]

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[20] Baldassare Castiglione, *Il Cortegiano* (Venetia: nelle case d'Aldo Romano, & d'Andra d'Asola suo suocero, 1528). For the first translation in English, see Baldassare Castiglione, *The Courtyer of Count Baldessar Castilio: Diuided into Foure Bookes. Very Necessary and Profitable for Yonge Gentilmen and Gentilwomen Abiding in Court, Palaice or Place, Done into English by Thomas Hoby.*, trans. Sir Thomas Hoby (London: By wyllyam Seres at the signe of the Hedghogge, 1561). There was another similar treatise written in the 1470s by Diomede Carafa, *Dello Optimo Cortesano*, but it was much less popular.

[21] Peter Burke, *The Fortunes of the Courtier: The European Reception of Castiglione's Cortegiano* (Cambridge: Polity, 1995), 124.

[22] See footnote 20.

[23] Burke, *The Fortunes of the Courtier*, 124–26.

According to Quentin Skinner, this popularity was in part related to the well-established decline of Italian republics by the early sixteenth century, and the rise in their stead of duchies and princely states centred not on a *piazza* or *palazzo public*o, but on more 'private' courts.[24] It is from this strand of literature that manuals about the function of ambassadors emerged. This is the point at which gentility (or courtesy or civility) became a critical way of knowing sovereigns. Such a change coincides with a period, the mid-sixteenth century, which scholars of international relations often identify with the beginnings of modern international society and of one of its important institutions, diplomacy.[25] In fact, many of those who wrote courtesy, civility, and gentility manuals were diplomats themselves. In an age without statistics and other such means of knowing international actors, gentility was one, if not the, crucial form of knowledge on which practitioners of international relations rested.

From the early modern period, gentility was an important tool for international practitioners and particularly, for ambassadors. During the period associated with the emergence of modern international society and specifically diplomacy, ambassadors started producing manuals explaining what was required of an ambassador. In the words of one scholar the 'great majority of works discussing diplomacy […] provide a behavioural guide for the statesman, the courtier and the diplomat.'[26] A recent study claims that these manuals suggested that a good

[24] Quentin Skinner, *Visions of Politics, Vol. 2: Renaissance Virtues* (Cambridge: Cambridge University Press, 2002), 135–36. I thank Claire Vergerio for this point.
[25] See for instance Bull, *The Anarchical Society*, 197 ff.; Jack S. Levy, *War in the Modern Great Power System, 1495-1975* (University Press of Kentucky, 1983); Garrett Mattingly, *Renaissance Diplomacy* (New York, NY: Cosimo Classics, 2009).
[26] Heidrun Kugeler, "Le Parfait Ambassadeur : The Theory and Practice of Diplomacy in the Century Following the Peace of Westphalia" (DPhil Thesis, University of Oxford, 2006), 35.

diplomat was essentially a local courtier sent to a foreign court,[27] a suggestion that was certainly the result of 'the court culture of majesty, and the need to highlight the prestige of one's sovereign by grand displays.'[28] A testament to this trend is the treatise written by the famous Dutch ambassador Abraham de Wicquefort, published in 1681, *The Ambassador and his Functions*. In this treatise examining the ideal life path and behaviour of an ambassador he claims that the ambassador must not only be 'skilful, but also a gentleman, or at least […] appear one,' a task which, in his own words, simply required following Castiglione's rules.[29] Surprisingly, this was written by a man who had lived through the Peace of Westphalia and contributed to the great seventeenth century ascent of Brandenburg-Prussia, the predecessor of the Kingdom of Prussia. In other words, this was a man which one might expect to be more concerned with questions of power, balancing and cold calculations than with courtly manner and ceremonial. Likewise, a large number of the chapters in François de Callières' *De la manière de négocier avec les souverains* concern courtly behaviour.[30]

Ambassadors in countries that were seeking to become part of international society understood very well the fact that this required a specific set of attributes, of which gentility was a key one. Thus we see early eighteenth century Russian diplomats like Postnikov introducing Wicquefort's treatise to Russia in 1701, and writing a translation published in 1712. In the same vein, Matveev and Shafirov purchased for themselves and the Czar copies of Wicquefort's treatise, but also of

[27] Tomas Dyson, "English Diplomatic Agents 1603-1688" (DPhil Thesis, University of Oxford, 2013), 8.
[28] Ibid., 11–12.
[29] Abraham de Wicquefort cited in Burke, *The Fortunes of the Courtier*, 129–30.
[30] Callières, *De la maniere de negocier avec les souverains.*, chaps. 3–5, 10, 14–17, 22. The titles of some of these chapters are: Of the qualities and conduct of a negotiator, Of some other qualities of negotiators, Of the necessary and useful knowledge for a negotiator, Of ceremonies and civilities that are common between foreign ministers, What a negotiator must do upon arrival at a foreign court, Of the means to insert oneself in the good graces of a prince and his ministers.

Vera's and Callières'.[31] Similarly, American diplomat and later President, John Adams, instructed himself with diplomatic and legal treatises, notably with Wicquefort's and Mably's.[32]

These treatises changed from the fifteenth to the seventeenth century, for instance in the fifteenth century their titles often incorporated 'Legatus' or 'De legatis,' while in the sixteenth century they were often named 'le parfait ambassadeur', and in the eighteenth century they bore the title 'Art de negocier' or 'Ministre public.'[33] The gradual shift from Latin to French titles is not a coincidence as it marked the ascendancy of France and French culture in Europe. This was reflected in the prominence of French writers in the genre of ambassadorial treatises from the mid-seventeenth to the late eighteenth century. Examining the century following the Peace of Westphalia, one recent study finds nine manuals with French authors, five with authors from the Holy Roman Empire, three from Great Britain (two English and one Scotsman), three Dutch writers, two Spaniards, and one Italian.[34] This French dominance in fact worried a number of European diplomats, as they believed French diplomats to be consequently more skilful and better at furthering the interests of their sovereign. For instance the British theorists Keith and Chesterfield, perceived British diplomats as backward in relation to their French counterparts.[35]

In terms of content, these manuals addressed recurring questions, specifically pertaining to the attributes, education, and knowledge that a diplomat

[31] Kugeler, "Le Parfait Ambassadeur," 91–92.
[32] Ibid.
[33] Ibid., 39.
[34] Ibid., 43–44. The Holy Roman Empire's in the production of diplomatic treatises increased throughout the eighteenth century, particularly because of the development of its 'reform' universities (e.g. Halle and Göttingen).
[35] Ibid., 70.

should possess, but also regarding how he should conduct himself at foreign courts.[36] The answers provided to such questions did not draw on examples from ancient history but on actual 'customs of diplomacy.'[37] In these treatises, the diplomat 'had to emulate the behaviour of the "cortegiano,"' the courtier, and indeed 'noble education and socialisation at court' were central to the making of diplomats.[38] This was not only perceived as desirable from the point of view of various sovereigns who wanted to enhance their status and pursue their interests, but this aristocratic 'politesse' in the words of foreign affairs official Antoine Pecquet, was meant to 'contribute to the civilisation of the "société internationale."'[39] Around the period from 1730s to the 1750s, treatises about the ideal ambassador integrated more and more sections about international law, state science, and the analysis of state interests. The works of Mably, Nourar, and Réal provide excellent examples of this. In this sense, the period appears to be key in defining a more modern type of diplomacy, though gentility remained an important skill even in the context of this movement. This gradual shift can be attributed in great part to the rise of the 'service nobility,' namely middle and low ranking nobles who worked directly for the sovereign.[40] This noblesse *de robe* had accessed nobility through service to the sovereign, and it thus pushed for more specialised, or what one might call professional, diplomatic training.[41]

[36] Ibid., 40.
[37] Ibid., 51–53.
[38] Ibid., 64–65, 81–85.
[39] Ibid., 70.
[40] Duindam, *Vienna and Versailles*, 2003, 6; Kugeler, "Le Parfait Ambassadeur," 46.
[41] There is an interesting parallel to be established here with diplomatic agents who ranked low in the foreign policy apparatus and were expected to have a more technical type of knowledge (languages, etc.). See Dyson, "English Diplomatic Agents 1603-1688," 13–18.

Ambassadors were accordingly key figures in the development of gentility as a form of knowledge. It is worth remembering that in the early modern period, transport was slower than it is now, as was communication. Consequently it was fairly rare for two sovereigns to be in the same location at the same time. In addition to these conditions, there were very few means of knowing foreign sovereigns; there were no statistics, nor were there any published bodies of international treaties to which one could turn to figure out the relations of one sovereign with another.[42] The best way to know a sovereign, and to appreciate his characteristics in relation to other sovereigns, was to be at court. Ambassadors were expected to stand for their sovereign in court, to represent him, and to receive the respect that was to be paid to him. To use the words of an historian of diplomacy, '[e]ach King wanted his foreign ministers to reflect his own glory, and he expected them to guard their movements carefully lest any shadow be cast upon his own Majesty.'[43] In fact, diplomats were adepts at 'ceremonial brinksmanship […] to defend and enhance the prestige of their masters.'[44] The representation of sovereigns by their envoys at the court was thus critical.[45]

Crucially, not only was gentility useful to know how to represent the sovereign properly, but it was also relied on to assess the relative strength and status of sovereigns. By being at the court and understanding the respect being paid to certain ambassadors, it was possible to grasp where each sovereign stood in international society. In the words of the prominent political historian Jeroen Duindam,

[42] Keene, "The Naming of Powers," 278. The only treaty-compilation at this time was Leibniz's *Codex juris gentium diplomaticus*. For more on this, see Chapter 2.
[43] Phyllis S. Lachs, *The Diplomatic Corps under Charles II & James II* (New Brunswick, NJ: Rutgers University Press, 1965), 96.
[44] Duindam, *Vienna and Versailles*, 2003, 184.
[45] Roosen, "Early Modern Diplomatic Ceremonial," 455–56.

'ceremonial conflict among states can serve as a "barometer", allowing us to reconstruct international relations as they were perceived by contemporaries.'[46] There had been rankings of Christian rulers in the early sixteenth century, such as the one from the reign of Pope Julius II in 1504, and these continued to have some importance.[47] However, the Protestant Reformation as well as the emergence of the Dutch Republic started posing problems for the elaboration of international hierarchy. One way to identify the evolution of this hierarchy for international practitioners, and chiefly diplomats, was to participate in the courtly events and ceremonials. Though clauses about precedence were already included in treaties in the seventeenth century, these were not available in published form before at least the early eighteenth century. The best place to see this hierarchy was therefore, the court.[48] This was the case particularly because diplomacy 'connected the ranking at all major European courts,' and changes in the hierarchy at one court could disrupt other courts. [49] In the words of Mably who was referring to the networks of resident embassies across Europe, 'toute l'Europe se connait.'[50]

A result of this was that from the early seventeenth to the mid-eighteenth century, a whole science of ceremonial was developed. In 1619 in France, Theodore Godefroy, a lawyer and then historiographer who had moved from Switzerland, created a compilation of French ceremonials from the Middle Ages to his time, *Le Cérémonial de France*. This type of publication continued in the eighteenth century, with such works as Rousset de Missy's *Cérémonial Diplomatique*.[51] While

[46] Duindam, *Vienna and Versailles*, 2003, 186.
[47] Keene, "The Naming of Powers," 270.
[48] This point is particularly important for scholars who study international hierarchy, because it implies that one of the best places to understand the stratification of international society is to look at court ceremonials. See Roosen, "Early Modern Diplomatic Ceremonial.".
[49] Duindam, *Vienna and Versailles*, 2003, 199–200.
[50] Mably's words in his Principes de Négociations (1751), cited in Kugeler, "Le Parfait Ambassadeur," 23.
[51] Duindam, *Vienna and Versailles*, 2003, 198.

at first these concerns for 'decorum and reputation' were seen in German lands as typically French and Italian concerns, this markedly changed in the second half of the seventeenth century.[52] In 1652, at the request of Ferdinand III, the *Zeremonialprotokoll* was created for the Viennese court.[53] With the growing presence of diplomats and of courtly conflicts, these new compilations of ceremonial practice became critical for sovereigns to pose as arbiters of ceremonial disputes.[54] This led to the increased importance of past practice and established manners at court.

It was not only their ambassadors and extraordinary envoys that were preoccupied with manners and the like, but also sovereigns themselves. This is particularly clear in the case of countries that were relatively recent members of international society, for instance, the early Dutch Republic. Unlike the Venetian Republic headed by a doge (duke), the United Provinces could not be treated as a duchy or monarchy. As they gradually claimed a status equal to that of monarchies, the Dutch gained a strong interest in gentility, with the first translation of Castiglione's book appearing in 1662 in Amsterdam under the title, *De Volmaeckte Hovelinck*.[55] As noted by one scholar, it is unexpected that the new republic would find such interest in a book about courts.[56] Among Dutch rulers, there is certainly a lack of interest for gentility until the middle of the seventeenth century. However, the regents (burgomasters of Amsterdam, Rotterdam, Leiden, and so on) were slowly changing their lifestyles and adopting aristocratic attitudes (e.g. knighthood from foreign monarchs, calling

[52] Ibid., 193–94.
[53] Ibid., 194–95.
[54] Ibid., 199–200, 215.
[55] Burke, *The Fortunes of the Courtier*, 129.
[56] Ibid.

themselves by 'titles of recently purchased landed estates,' etc.), notably because of their anxiety about fitting in the international society of which they were part.[57] In fact, the first Dutch translation of Castiglione's *Book of the Courtier* was dedicated to Jan Six, the burgomaster of Amsterdam. One of the drivers of change in this process of 'aristocratization' was the need for and will of the Dutch Republic to cement its rightful place in international society. The maintenance of the Republic's 'ceremonial and diplomatic status at the international level' was one of the key reasons for the re-establishment of the House of Orange as Dutch stadtholders.[58]

In the late eighteenth century, the one-upmanship stemming from constant bids for more courtesy came to be perceived as relatively unwieldy and cumbersome.[59] It is tempting to write off the importance of ceremonial and gentility as an *ancien régime* fad. However, with the early nineteenth century restoration of the Bourbon dynasty in Europe – to which one might add the continuing existence of minor German states deep into the nineteenth century – 'European courts re-emerged triumphantly,'[60] and the 'société des princes' was thus still alive and

[57] Ibid.
[58] Heinz Schilling, "The Orange Court: The Configuration of a Court in an Old European Republic," in *Princes, Patronage and the Nobility: The Court at the Beginning of the Modern Age c.1450-1650* (Oxford: Oxford University Press, 1991), 450. In a funny anecdote recounted by Schilling, a French ambassador observed from his royal yacht a group of Dutchmen on a little boat. They interrupted their journey to have an 'undignified' picnic on the river bank. Moments later, the ambassador realised that this was the delegation from the Dutch Republic, with whom he was about to negotiate a treaty. Schilling concludes by saying that only 'the Orange dynasty and court could redress such imbalances and give the republic the aristocratic splendour and diplomatic polish it needed' (see Ibid.). On the parallel between the Venetian and Genoan *doges* and the Dutch *stadtholders*, see Jonathan Israel, *The Dutch Republic: Its Rise, Greatness, and Fall* (Oxford: Clarendon Press, 1998), 308.
[59] Duindam, *Vienna and Versailles*, 2003, 217–19. See also Richard Langhorne, "Clearing the Decks: Slimming Diplomatic Procedures and the Origins of the Concert of Europe" (British International History Group Conference, London School of Economics and Political Science, London, 2014).
[60] Duindam, *Vienna and Versailles*, 2003, 297.

well.[61] It was only in the second half of the nineteenth century that this network of courts started fraying at the edges, notably because of the emergence of the Third Republic in France. And yet, even then, diplomats of the French republic found themselves in difficult situations at foreign courts precisely because they were bourgeois, and not aristocrats:

> In foreign courts, especially St. Petersburg, which Paris was at pains to impress, aristocratic envoys were at a premium. There was often hostile condescension shown to bourgeois diplomats.[62]

This was still a world in which a German diplomat speaking about the Viennese court could claim that 'here humanity begins with counts.'[63] In Europe, there was accordingly an important dimension of continuity as courts remained key elements of the structure of political life.

At this point, I want to draw attention to a development which started in the second half of the eighteenth century and continued during the nineteenth century. Over the course of this period, courtesy (or at that time, *civilité*, in French) was reaching social groups beyond the court and spreading through society.[64] This also explains why words like *civilité*, and later *politesse*, or gentility in English, became more popular than the one pertaining directly to the court, namely courtesy. These new words had more to do with society (though in a very restricted upper class sense). Writing about this movement in France in his work on the civilizing process,

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[61] On the notion and history of the society of princes, see Lucien Bély, *La Société des princes* (Paris: Fayard, 1999).

[62] M. B. Hayne, *The French Foreign Office and the Origins of the First World War, 1898-1914* (Oxford: Clarendon Press, 1993), 24. The United States faced similar issues. In the nineteenth century, it was thought that an American diplomat 'should be a gentleman, that is, acquainted with the ways of the world and the usages and manners of the best society in each capital.' American diplomat Eugene Schuyler, cited in Warren Frederick Ilchman, *Professional Diplomacy in the United States, 1779-1939* (Chicago, IL: University of Chicago Press, 1961), 44.

[63] Cecil Lamar, *The German Diplomatic Service, 1871-1914* (Princeton, NJ: Princeton University Press, 1976), 69.

[64] Roger Chartier, "Civilité," in *Handbuch Politisch-Sozialer Grundbegriffe in Frankreich 1680-1820*, ed. Rolf Reichardt et al., vol. 4 (Munich: R. Oldenbourg Verlag, 1986), 43; Elias, *The Civilizing Process*, 29–30.

Norbert Elias claims that the 'differences of manners between leading bourgeois groups and the courtly aristocracy' were greatly decreasing in the eighteenth century, a process which he characterises as the 'upsurge of the middle class' or alternatively, the 'enlargement of aristocratic society.'[65] Regarding language, Elias states that

> […] much of what in the seventeenth and to some extent the eighteenth century was the distinguishing form of expression and language of court society gradually becomes the French national language.[66]

What was hitherto specific to courtly life was gradually becoming a defining characteristic for a much greater part of society. Nineteenth-century Britain witnessed a strong revival of medieval ideals of chivalry, ideals which came to define what a gentleman was. One could be born a gentleman or become one.[67] Gentility was an ideal that was embraced both by the gentry and the upper strata of society, particularly those who could maintain a gentlemanly lifestyle, that is, engage in professions suitable to a gentleman. And though over the course of the nineteenth century the court became less important, the ideals of gentlemanliness were still largely modelled around ideals of aristocratic-courtly behaviour. In an odd turn of events, merchant bankers turned to gentility as a key form of knowledge precisely at a time when it was declining rapidly in favour of other forms of knowledge for a number of other international practitioners.

II. Merchant bankers as gentlemen

In the preceding chapter, we saw that merchant bankers initially started out as servants to princes or as merchants. Many of them moved into the business of

[65] Elias, *The Civilizing Process*, 29–30.
[66] Ibid., 89.
[67] Cain and Hopkins, *British Imperialism*, 38.

sovereign lending with the development of incredible opportunities for enrichment following the fall of the French Empire. In order to do this, they had to acquire a specific set of skills. At the time, and until late into the nineteenth century, there were 'no formal arrangements for tuition; all that existed were a few handbooks on banking practice, amongst which one finds James Gilbart's *Practical Treatise*, first published in 1827, and John Dalton's *Banker's Clerk* from 1843.[68] These treatises were however intended for clerks working in the newly-created joint stock banks, not merchant bankers.[69] Similar manuals existed in France, for instance Jacques Peuchet's *Manuel du banquier* published in 1829.[70] Merchant bankers in fact learnt their trade in the family business. This training mostly consisted in acquiring 'a command of foreign languages and clear handwriting' as well as undergoing a clerkship, and finally spending time 'abroad visiting the bank's correspondents and agents.'[71] Though merchant bank histories often emphasise how good merchant bankers were with numbers, this is more of a literary commonplace than a reflection of any real gift or competence in mathematics.

This training however tells us relatively little about how merchant bankers knew sovereigns. It might in fact lead one to believe that merchant bankers had no

[68] Edwin Green, *Debtors to Their Profession: A History of the Institute of Bankers 1879-1979* (London: Methuen & Co Ltd, 1979), 5. Incidentally, John Dalton also founded *The Bankers' Magazine* in 1844, a year after the creation of *The Economist*. Even the *Banker's Magazine* was basically 'reserved for the world of deposit banking.' See Cassis, *City Bankers, 1890-1914*, 28–29.
[69] Cassis, *City Bankers, 1890-1914*, 28.
[70] Jacques Peuchet, *Manuel du banquier, de l'agent de change et du courtier: contenant les lois et réglemens qui s'y rapportent, les diverses opérations de change, courtage et négociations des effets à la Bourse* (Paris: Roret, 1829). Peuchet also happened to be one of the key characters who introduced German *Statistik* in France (more on this in chapter 6). In France, from the seventeenth century onwards, a number of works about book-keeping appeared. These manuals were a source of teaching added to in-house training. Over the course of the eighteenth century, these manuals became more theoretical and attempted to discern general laws. See Yann Lemarchand, "'A la conquête de la science des comptes'. Variations autour de quelques manuels de comptabilité des XVIIe et XVIIIe siècles," in *Ecrire, Compter, Mesurer /2 : Vers une histoire des rationalités pratiques*, eds. Natacha Coquery, François Menant, and Florence Weber (Paris: Editions Rue d'Ulm, 2013), 34–65.
[71] Wake, *Kleinwort, Benson*, 107.

systematic approach to knowing sovereigns and to estimating the risks they represented. One might suppose that merchant bankers' approach to knowing sovereigns was simply not objective, unsystematic, and basically *ad hoc*.[72] The idea that their evaluations were *ad hoc* is perhaps true, but that does not tell us about the kind of knowledge that merchant bankers used to conduct their business of lending to sovereigns. What we do know is that there is a common theme in many historical studies about the shift from personal to impersonal relations in financial markets.[73] In addition, it is clear from business and imperial history that bankers knew many sovereigns and their representatives in person. Their business was indeed 'intensely personal' because personal connections allowed one to know 'what a man could do and how he would do it.'[74] In the words of a historian of the House of Morgan:

> Because they frequently never saw the enterprise for which they guaranteed funds, bankers had to depend upon their judgement of people, both those who wished to borrow, and those on whose assessments they often depended as to the credit-worthiness of a potential borrower. To them, the highest praise of a man was that his character was sound: no matter how promising the enterprise seemed, a first-class banker would not lend to anyone he did not trust.[75]

And yet, this does not quite tell us the type of knowledge that bankers had to use to know sovereigns and their representatives. The answer can be found in a number of different historical monographs that stress the gentlemanly nature of nineteenth century high finance and its aristocratic lifestyle.[76] By examining the education

[72] For a brief mention of this line of argument, see Monika Pohle Fraser, "Personal and Impersonal Exchange. The Role of Reputation in Banking: Some Evidence from Nineteenth and Early Twentieth Century Banks' Archives," in *Centres and Peripheries in Banking: The Historical Development of Financial Markets*, ed. Philip L. Cottrell, Even Lange, and Ulf Olsson (Aldershot: Ashgate, 2007), 177.
[73] Ibid. This theme is of course present in International Relations as well, see e.g. Osiander, *Before the State*.
[74] David S. Landes, *Bankers and Pashas: International Finance and Economic Imperialism in Egypt* (London: Heinemann, 1958), 14–15.
[75] Burk, *Morgan Grenfell 1838-1988*, 29.
[76] Cain and Hopkins write about gentlemanly capitalism and the key role of merchant bankers therein, while David Landes speaks of 'The Gentle Calling of High Finance' and Youssef Cassis about their 'aristocratic way of life.' See respectively Cain and Hopkins, *British Imperialism*, chap. 1; Landes, *Bankers and Pashas*, chap. 1; Cassis, *City Bankers, 1890-1914*, chap. 7.

pursued by merchant bankers, particularly the ones based in the world's financial centre, Britain, it is possible to get a sense of what this knowledge was.

The ideal of gentlemanliness was absolutely central to shaping nineteenth century international finance.[77] This was particularly the case in Britain. After the Glorious Revolution of 1688, the aristocracy managed to remain the most 'successful element within emergent capitalism' by entwining its fate with the City's.[78] The revolution of 1688 entrenched the power of the landed interest in the countryside 'and consolidated its hold on the polity,'[79] but this group was only able to hang on to power until the early twentieth century because it managed to integrate the upper stratum of the service sector (by opposition to industry and manufacturing), and specifically, finance.[80] As a result, political life and imperialism were shaped largely by financial interests and not, as in many accounts, by industrial magnates.[81]

The peculiarity of these professions was that they were 'suitable occupations for gentlemen,'[82] as they allowed one to earn money from a distance and to avoid the proximity to labour that was 'associated to dependence and cultural inferiority.'[83] This made for a type of economic order that was imbued with an 'ambivalent attitude towards capitalism,' a contempt for 'the everyday world of

[77] The authoritative reference is Cain and Hopkins, *British Imperialism*. For a recent discussion, see Raymond E. Dumett, *Gentlemanly Capitalism and British Imperialism: The New Debate on Empire* (London: Routledge, 1999). For a discussion of the return of the ideal of gentlemanliness in nineteenth century Britain, see Mark Girouard, *The Return to Camelot: Chivalry and the English Gentleman* (New Haven: Yale University Press, 1985); Keen, *Origins of the English Gentleman*. For a discussion of this theme with regard to France, see the working paper by David Todd, "Republican Capitalism: The Political Economy of French Capital Exports in the Nineteenth Century" (King's College, London, 2015).
[78] Cain and Hopkins, *British Imperialism*, 40.
[79] Ibid., 44.
[80] Other important service sector jobs included the upper reaches of the law, upper echelons of the established church, and the officer class of the armed services (see Ibid., 40).
[81] This groundbreaking point is made in Cain and Hopkins, *British Imperialism*.
[82] Ibid., 38.
[83] Ibid., 39.

wealth creation and of the profit motive as the chief goal of activity.'[84] This explains why bankers sometimes behaved in what appears to be an 'economically irrational' manner.[85] A corollary of the importance of gentlemanliness was the 'primacy of relations, even economic ones, based upon personal loyalties and family connections.'[86] In this world, the relations that emerged between high politicians and great financiers were rooted in direct personal contact, and not in any form of market competition.[87] This also explains why the City functioned for so long, so efficiently, on the basis of informal relations, in which one's word was as good as a contract. This recalls the words spoken by one of the members of Hambros comparing the functioning of New York, where lawyers were ubiquitous, to the City's: 'we don't talk to a lawyer before making a verbal promise. […] the City isn't big and you know who belongs here.'[88]

All these gentlemen were produced through the reformed and expanded public schools and in the ancient universities,[89] and the cohesion of the group of gentlemanly capitalists was assured through in-group marriage. Though they did receive training within the family firm and through trips abroad, an increasing number of merchant bankers attended public schools, received a classical education privately, and/or went to Oxford or Cambridge.[90] In his seminal study of city

[84] Ibid. The opposition between entrepreneurial wealth and propertied wealth is a famous theme in classical sociology, particularly in the works of Max Weber and Thorstein Veblen. See Max Weber, *Economy and Society: An Outline of Interpretive Sociology*, ed. Guenther Roth and Claus Wittich (University of California Press, 1978), chap. 4; Thorstein Veblen, *The Theory of the Leisure Class* (New York, NY: Penguin Books, 1994).
[85] Cain and Hopkins, *British Imperialism*, 49.
[86] Ibid., 39.
[87] Ibid., 41–42.
[88] Ferris, *The City*, 41.
[89] Cain and Hopkins, *British Imperialism*, 45–46.
[90] Cassis, *City Bankers, 1890-1914*, 98–106; Ferguson, *The House of Rothschild Vol. 2*, 43–45, 223–25.

bankers from 1890 to 1914, Youssef Cassis estimates that 50 per cent of merchant bankers received a public school and/or Oxbridge education.[91] By comparison only 16 percent of iron and steel manufacturers active between 1875 and 1895 attended public schools, and only 9 percent attended Oxford or Cambridge in the same period.[92] The trend over the nineteenth century was one of rapid increase with each generation.[93] Out of his sample 33 percent of the merchant bankers' education is unknown, but Cassis infers from this that they were not educated and that they were only trained in the family bank. Fifty percent may seem like a rather low figure. However, a closer look at the figures exposes how some merchant banks were much better 'educated' than others. Unsurprisingly, the partners in the firms that were at the very top of the banking hierarchy (and also the most active in loans to foreign sovereigns) scored high on the educational ladder. For instance, 100 percent of the partners at N.M. Rothschild & Sons attended a public school, Oxford, or Cambridge, while 93 percent of the partners at Baring Brothers & Co. and 75 percent of those at Morgan, Grenfell & Co. did so.[94] As Cassis remarks, the merchant bankers represented at the Court of Directors of the Bank of England, a clear sign of distinction, were also often the ones with the best education.[95] The cohesion of these top merchant bankers can be further established with the

[91] Cassis, *City Bankers, 1890-1914*, 102. In his study, Cassis examines partners from the following merchant banks: Arbuthnot, Latham & Co., Baring Brothers & Co. Ltd., R. Benson & Co., Brown, Shipley & Co., Erlanger & Co., R. Fleming & Co., Fruehling & Goschen, Antony Gibbs & Sons, C.J. Hambro & Son, Frederick Huth & Co., Kleinwort, Sons & Co., H.S. Lefevre & Co., Matheson & Co., Morgan, Grenfell & Co., Samuel Montagu & Co., N.M. Rothschild & Sons, M. Samuel & Co., D. Sassoon & Co., J. Henry Schroeder & Co., and Stern Brothers. See Ibid., 10.
[92] Cassis, *City Bankers, 1890-1914*, 99. An interesting fact it that 50 percent of the directors of joint stock banks had received a public school and/or Oxbridge education. But as we will see in chapter 5, this was because many of these directors were part of old private banks (deposit banks).
[93] Ibid., 102 fn. 19.
[94] Ibid., 104.
[95] Ibid., 103.

following fact: among those who attend British universities, 35 per cent attended Trinity College at Cambridge!

A number of great merchant bankers were originally Jewish, and thus denied the right to attend the ancient universities. But this changed over the course of the nineteenth century, with the Rothschilds playing a pioneering role in this matter.[96] As Ferguson argues, this question of matriculation and graduation at Oxford and Cambridge must be considered alongside the restrictions imposed on Jews to sit as Members of Parliament in the House of Commons, in that it bore similar significance.[97] The importance of this question alone should tell us about the critical nature of gentlemanly education at the time.

In order to obtain the right for Jews to study at Cambridge, the Rothschilds – along with Moses Montefiore – turned to Prince Albert, the then Chancellor of Cambridge.[98] In fact, this move was triggered by the refusal of the Master of Christ's College to bend the rule of chapel for Arthur Cohen, a Rothschild cousin. This eventually led to the Oxford and Cambridge University Reform Acts of 1854 and 1856 which allowed Jews to take degrees (except in theology).[99] In a letter from 1862, Nathaniel Rothschild complained to his parents that he could not

> 'see why a national institution like this which is the stepping stone to legal and political preferments as well as ecclesiastical ones should be ruled by priests as if it were Jesuit's seminary or a Talmud school…'[100]

This passage goes to show how well merchant bankers like the Rothschilds perceived the role of universities as springboards for important positions in society.

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[96] Ferguson, *The House of Rothschild Vol. 2*, 43–45.
[97] Ibid., 20.
[98] Ibid., 43–44.
[99] Todd M. Endelman, *The Jews of Britain, 1656 to 2000* (Berkeley, CA: University of California Press, 2002), 98–103.
[100] Ferguson, *The House of Rothschild Vol. 2*, 44.

In the world of Nathaniel Rothschild's mother, Charlotte, 'a man who has taken a good degree at Cambridge or Oxford is more highly thought of, and this good opinion acts as an encouragement to every useful exertion throughout life.'[101] And in fact, accession to Cambridge was a 'real social breakthrough.'[102] There, the Duke of St Albans introduced Nathaniel Rothschild to the Prince of Wales (the future Edward VII), with whom he shared a passion for hunting and horseracing.[103] These early ties were strengthened and the bonds lasted for their lifetimes.[104]

Interestingly, in Oxford and Cambridge, students mostly read classics, but seemingly next to no knowledge having 'practical' applications was dispensed: '[F]or learning about banking, the only way to do that was in a bank; if Cambridge offered anything, it was a distraction from the priorities of the family business.'[105] Moral sciences – which Nathaniel Rothschild read at Cambridge from 1859 – included moral philosophy, political economy, modern history, general jurisprudence and the laws of England. Moral sciences were a rather new subject, only introduced in 1850 as a 'tripos' at Cambridge.[106] The political economy component of the course was still mostly theoretical, and there was nothing as applied as financial accounting. It was 'very different from economics as taught today,'[107] and was 'largely based on Adam Smith's Wealth of Nations, to which

[101] Ibid., 224–25.
[102] Ibid., 249.
[103] Ibid.
[104] In a sense, the passage through the ancient universities was meant to efface the social origins of individuals, within the upper strata of society that is – a great equalizer of sorts, amongst the elite. This explains why on one occasion Charlotte Rothschild was so angry at her son Nathaniel (Natty), who had lent £500 to a fellow student, thus betraying his social origins. Ibid., 225.
[105] Ibid., 43.
[106] E. S Leedham-Green, *A Concise History of the University of Cambridge* (Cambridge: Cambridge University Press, 1996), 153.
[107] Sir Norman Chester, *Economics, Politics and Social Studies in Oxford, 1900-85* (London: Globe Education, 1986), 2.

was later added John Stuart Mill's Principles of Political Economy.'[108] It dealt with 'unemployment and poverty, tariffs and taxation' and seems not to have had 'a significant place in the curricula,' in Oxford and Cambridge alike.[109] Indeed, it took until 1905 for a tripos in economics to be created,[110] a course of study that would have resembled the French commercial schools'. At the University of Oxford, a report from as late as 1931 underlined the necessity to create two posts immediately, one of which was a readership in statistics and another, a chair of finance and currency.[111]

The few merchant bankers who attended Cambridge or Oxford did so for the same reason that they became Members of Parliament (MP) – to acquire gentility. It is no mystery that in nineteenth century Britain, 'a seat in the House of Commons […] was only of limited value,' and as if to prove the point, the Rothschilds for instance made little use of its facilities.[112] In fact it was not only of limited value, but could be financially damaging, as in the case of Francis Baring, whose political activity 'took him away from his occupation as a merchant and to that extent was detrimental to his financial well-being.'[113] But such activities were part and parcel of what it was to be a gentleman, a status that required practicing arts such as

[108] Alon Kadish and Keith Tribe, "Introduction: The Supply of and Demand for Economic in Late Victorian Britain," in *The Market for Political Economy: The Advent of Economics in British University Culture*, by Alon Kadish and Keith Tribe (London: Routledge, 1993), 2.
[109] Chester, *Economics, Politics and Social Studies in Oxford, 1900-85*, 2, 6–8.
[110] Leedham-Green, *A Concise History of the University of Cambridge*, 162.
[111] Chester, *Economics, Politics and Social Studies in Oxford, 1900-85*, 54. At this time, there may have been a strong discrepancy between Oxford and Cambridge, as in the former, economics had been pushed by men trained in Greats (i.e. Francis Edgeworth), while in the latter, it was mathematicians who were the champions of the introduction of economics training (i.e. Alfred Marshall).
[112] Ferguson, *The House of Rothschild Vol. 2*, 20–21. For the Rothschilds, breaking into the House of Commons was also about overcoming a privilege long denied to Jews, specifically through the Oath of Abjuration.
[113] Ziegler, *The Sixth Great Power*, 33–34.

'leadership, light administration and competitive sports.'[114] As a result, between 1832 and 1918, the Barings produced 12 MPs, Rothschilds 6, Grenfells 4, Hambros 3, Gibbs 3, and Samuels 4.[115] A number of MPs were not actively involved in the banking business anymore, but they served to raise the standing of the family. To this political activity was generally added 'literary, scientific or philanthropic' activities.[116]

Another means of acquiring gentility, which cannot truly be considered an 'activity,' was marriage into the aristocracy and landed nobility. While for the generation born between 1800 and 1820 this only happened once, the next generation's experience was utterly different, and by the end of the century marriage with aristocrats was even more widespread. As always, 'the most prominent banking families' also happened to be frontrunners in this movement.[117] Some bankers acquired titles of nobility outside marriage, for instance Lord Rothschild, Lord Revelstoke (a Baring), and Viscount Goschen. And those who did could afford to marry foreigners who were not noble, a specifically important issue for Jewish merchant bankers.[118] But perhaps the most interesting fact is 'that 74 percent of bankers who married daughters of aristocrats attended public schools and Oxford or Cambridge.'[119] This goes to show the interrelatedness of the various strategies to acquire gentility, and how they were obviously seen as a bundle of necessary practices.

[114] Cain and Hopkins, *British Imperialism*, 38.
[115] Cassis, *City Bankers, 1890-1914*, 269.
[116] Ibid.
[117] Ibid., 205.
[118] Ibid., 207–8.
[119] Ibid., 205. This figure includes small private bankers, but it is nonetheless telling regarding the overlap between these two social characteristics.

Merchant bankers also acquired the adequate social status to reach sovereigns by buying large country estates – another key sign of gentility. The Rothschilds' estates at Ferrières, Suresnes, Boulogne (France), Gunnersbury, Waddesdon, Mentmore (Britain), Schillersdorf (Austria) and Grüneburg (Germany) are the clearest expression of this trend.[120] Merchant bankers bought these palaces not simply because they could afford them and liked to spend time in the country. For Ferguson, with these houses the Rothschilds did nothing less than to stake 'a claim to aristocratic status.'[121] In Britain, many of the most important political decisions were taken in 'those complex circuits of aristocratic country houses where the political elite spent such a large proportion of the year.'[122] Some families such as the Rothschilds and the Barings cumulated Oxbridge educations and political offices, while others such as the Kleinworts did not have the University education, but nonetheless established themselves as country gentlemen 'like other City bankers,' a move 'through which they became known to the Prince of Wales' set.'[123] For merchant bankers in France, the acquisition of large estates outside Paris was also a matter of course, though 'the country' was certainly less important politically than in Britain. The châteaux French bankers built often served to store paintings and various *objets d'arts*, which prestigious guests could admire when they were invited at one of the lavish balls. Through all these means, i.e. education, political office, the acquisition of titles of nobility (sometimes through marriage)

[120] A striking feature is that many of these palaces look like French eighteenth century châteaux, which says something about what the Rothschilds looked to as their model: the French aristocracy who had been a reference point for genteel behaviour throughout eighteenth century Europe. See Crook, *The Rise of the Nouveaux Riches*, 62–63.
[121] Ferguson, *The House of Rothschild Vol. 2*, 46.
[122] Ibid., 20.
[123] Wake, *Kleinwort, Benson*, 134.

and estates, merchant bankers displayed their gentility and cemented their place in society.[124]

At this point, one might want to ask to what extent this applied to the other financial centres of the time, Paris, and to much lesser extent, New York. In the case of the New York the answer is surprisingly simple. The most important banking houses for trade financing, the acceptance business, and long-term capital flows such as sovereign lending were European or Anglo-American houses (i.e. Barings, Rothschilds, Morgan, or Schröders)[125] and were thus integrated into London's orbit. The best example to take is perhaps the House of Morgan, as it is the most American of the merchant banks and hence the most likely to be different from its more British counterparts. Interestingly, even though by 1900 the London branch was twelve times smaller than the New York one in terms of capital (a feature related to the American-centric focus of the bank), London remained the leading house for all that was related to foreign corporate finance and government issues.[126] Thus, even when the New York branch of the House of Morgan was part of an American syndicate to make a loan to a foreign state, it designated its London partners as lead negotiators to discuss loan terms with other leading international houses. An excellent example of this is the 1909 (failed) loan to China. The American President of the time, William Howard Taft, and his Secretary of State, Philander C. Knox, wanted to secure a place similar to other great powers' in

[124] To these means of acquiring and signalling gentility, one can add the acquisition of titles of nobility, marriage with aristocrats, and membership in gentlemen's clubs in London. See Cassis, *City Bankers, 1890-1914*, 202–8, 257–61.
[125] Mira Wilkins, *The History of Foreign Investment in the United States to 1914* (London: Harvard University Press, 1989), 469–77.
[126] Burk, *Morgan Grenfell 1838-1988*, 62–63.

China.[127] In order to participate in the discussions for a Chinese loan with the British, French, and Germans, Knox gathered a group of American banks, with Morgans at their head. The group itself then decided to appoint Morgan Grenfell (the British branch of the House of Morgan) 'to conduct all negotiations for the American group' with the other European groups.[128] The extent to which this move was not simply administrative can be easily demonstrated through the complaints of the London based Morgan Grenfell & Co. to the New York based J.P. Morgan regarding the time they spent and the little remuneration they obtained to negotiate on behalf of the American group.[129]

As was made clear in the previous chapter however, it is also difficult to entirely dissociate Parisian merchant bankers from those of other countries (particularly British ones), as they were either part of alliances or of the same families. While Barings was allied with the Hottinguers, N.M. Rothschilds of London were linked to Rothschilds Frères et Cie in Paris, and Morgan, Grenfell & Co. to Morgan, Harjes et Cie. In addition, it is clear that after defeat in the Franco-Prussian War, Paris declined in its importance as an international financial centre, leaving London far ahead. Finally, in a recent working paper, David Todd speaks of a 'republican capitalism' which arguably shared many of the features of British gentlemanly capitalism.[130] In France as in Britain, the

> *aristocratie financière* merged with the *grande bourgeoisie de robe* to form the *classe dominante*, from which the old aristocracy was not absent,

[127] Ibid., 65.
[128] Ibid., 66.
[129] Ibid., 66–67.
[130] Todd, "Republican Capitalism." The similarities between Britain and France should not be overstated, and there would is indeed plenty of difference to make a comparative study of financial elites in France and England, interesting. See e.g. Werner Mosse, "Nobility and Bourgeoisie in Nineteenth Century Europe: A Comparative View," in *Bourgeois Society in Nineteenth Century Europe*, ed. Jürgen Kocka and Allen Mitchell (Oxford: Berg Publishers, 1993), 70–102.

> even though it was more in the position of the "junior partner" than in Britain.[131]

The Restoration in the early nineteenth century (and particularly that of the Bourbons), often eclipsed by the French Revolution, makes this argument all the more plausible.[132] A broad movement, the Bourbon Restoration touched Spain and Naples, as Ferdinand VII and Ferdinand IV (both Bourbons), ascended to these respective thrones. In France, during this period, landed wealth and aristocratic titles were key markers of status, while aristocrats occupied key positions in the upper offices of the national administration – though this largely ceased to be the case under the July Monarchy.[133] Only briefly interrupted by a short-lived republic, the Restoration (including the 1830-1848 July Monarch) was succeeded by the Second French Empire, which bore many 'courtly' characteristics. In fact, by 1853 James de Rothschild was having difficulty accessing the new emperor, and as a way 'into the new court,' he started 'wearing his scarlet uniform to remind anyone who had forgotten his diplomatic status' as Austrian consul-general.[134] This court-centric aspect presents a fair level of continuity with the *ancien régime*.[135] Hence, while both New York and Paris were clearly in the orbit of London, France

[131] Youssef Cassis, "Businessmen and the Bourgeoisie in Western Europe," in *Bourgeois Society in Nineteenth Century Europe*, ed. Jürgen Kocka and Allen Mitchell (Oxford: Berg Publishers, 1993), 119–20. I do not want to overstate these similarities as the position of the French aristocracy was far more precarious and complex than the British aristocracy's.

[132] This argument chimes in with the idea of a 'generation of 1820.' This generation witnessed the Napoleonic Empire, was educated in its last years, but did not participate in its political project. Because of this experience it saw itself as imbued with a certain destiny, to make the grand ideals of the Empire live on in a decidedly duller peacetime France. See Alan B. Spitzer, *The French Generation of 1820* (Princeton, NJ: Princeton University Press, 1987).

[133] Guillaume de Bertier de Sauvigny, *The Bourbon Restoration*, trans. Lynn M. Case (Philadelphia, PA: University of Pennsylvania Press, 1966), 247–49.

[134] Ferguson, *The House of Rothschild Vol. 2*, 54.

[135] However, as we will see in chapter 5, courtly life in the Second French Empire was like an old wallpaper stuck back to the wall. In terms of banking, this regime brought about enormous changes, notably by promoting joint stock banks. This was a conscious policy on the part of Napoleon III, and explains James de Rothschild difficulties in accessing the 'court.' These changes were part of a broader shift in what has been termed the 'economic identity of France.' See David Todd, *L'identité économique de la France: libre-échange et protectionnisme (1814-1851)* (Paris: Grasset, 2008).

presented some structural similarities with the British social context.[136] And thus it was that international finance and sovereign lending were dominated by a group of merchant bankers who relied on gentility to know sovereigns.

III. Conclusion

In this chapter, I have sought to make two points. The first point is that during the early modern period, gentility understood as a set of manners and practices required to be at court, became a crucial form of knowledge for international practitioners, particularly diplomats. In other words, for those who wanted to know sovereigns, the acquisition of gentility through manuals or through education at foreign courts (or both), was necessary. Initially, this was bound up with the decline of Italian republics and the rise in their stead of duchies and princely states, the latter being centred on private courts. During the early modern period, one of the only ways to know sovereigns was in person, and the ceremonial at court, involving foreign ambassadors, was a representation of international society itself. As all the European courts were linked by resident embassies, a diplomat's standing at court ceremonial had repercussions far beyond the court where he was stationed. Gentility was also a key tool for sovereigns themselves, so as to express their standing in international society correctly. This was a concern of the first order for new sovereigns (e.g. the Dutch Republic), but also for those who sought to rise or maintain their position in international society. An important observation to make here is the extent to which gentility still mattered in the eighteenth century,

[136] The German case seems to have also relied on a deep penetration of elites by merchant bankers that had ties either to Britain or the United States, for instance the Warburgs. Thus it was perfectly normal for Max Warburg to dine with the Kaiser in Hamburg "to discuss the general situation." Eduard Rosenbaum and A. J Sherman, *M.M. Warburg & Co., 1798-1938: Merchant Bankers of Hamburg* (London: C. Hurst, 1979), 111.

allegedly characterised by *raison d'état* and balance of power thinking. While these elements of international relations should not be overlooked, the lasting importance of gentility and of the quest for social status and prestige should force us to rethink how all these aspects fit together in early modern international relations.

The second point I made in this chapter is that merchant bankers were part of this old world, that they *too*, relied on gentility to know sovereigns. The families that dominated the business of sovereign lending emerged in the late eighteenth and very early nineteenth century, sometimes as court bankers. It is thus rather unsurprising that they knew sovereigns in this relatively conventional way. Particularly indicative of their need for gentility is the fact that merchant bankers involved in high finance and sovereign lending overwhelmingly sought to be educated in public schools and the ancient universities. Though nothing of immediate value could be learnt about banking in these institutions, this was where gentlemen were made in nineteenth century Britain, the centre of world finance. Apart from actually meeting those who might later provide the connections to sovereign borrowers, in university, merchant bankers learnt how to behave in high society. As a result, they were not simple money-dealers, but could appear as real gentlemen. They also acquired gentility through other means, such as the construction of country estates, titles of nobility, political office, and marriage with aristocrats. Not only was the acquisition of gentility key to know sovereigns, but it was also crucial to merchant bankers' social ascent as families, a point I mentioned in the previous chapter. The world's other financial centres were largely integrated in London's orbit, and sometimes even presented similarities to the British 'gentlemanly capitalist' order.

This implies a substantial dimension of continuity between the old tradition of court bankers and the merchant bankers. The merchant banker is not at the court anymore, and it is perhaps in some sense the court that comes to him, but the terms on which they meet are still those of gentility. The persistent domination of sovereign lending by these seemingly backward merchant bankers, at least until World War II, is striking.[137] In the conclusion of this thesis, I will come back to this puzzling fact and assess the significance of their decline and of the rise of new actors who used an entirely different type of knowledge to know sovereigns. These actors and their knowledge constitute the new world of sovereign lending, to which I now turn.

[137] On the importance of the old regime until the interwar period see the classic Mayer, *The Persistence of the Old Regime*.

Chapter 5. The new sovereign lenders

By the interwar period, international finance was undergoing major transformations. In the business of sovereign lending specifically, new actors had appeared, from joint stock banks such as the Crédit Lyonnais, to rating agencies like Moody's, or yet still international institutions such as the League of Nations. With this constellation of actors, one sees the beginning of a seemingly modern finance. This world indeed resembles ours, and it is no coincidence as its actors went on to define international finance and sovereign lending for the next century. Large joint stock banks, credit rating agencies, and international institutions are still central actors in the business of sovereign lending. However, most of these new financial actors did not suddenly emerge out of nowhere; in fact, for the most part they emerged gradually throughout the nineteenth century.

At the core of this story lies, as two pundits have recently called it, a 'revolutionary idea': the joint stock company.[1] The joint stock company had of course been embodied in the past by entities like the Dutch East India Company. In most countries however, such entities still required a royal charter or, in the absence of monarchy, some high-level political approval. While joint stock companies became more common, particularly with the development of canals and railways, the granting of joint stock company charters remained a jealously guarded privilege. It was during the nineteenth century that this business form became liberalised and was extended to banks (hence the term joint stock bank). Some were created in the early part of the century, others around the 1850s, but it was only from the 1860s

[1] John Micklethwait and Adrian Wooldridge, *The Company: A Short History of a Revolutionary Idea* (London: Weidenfeld & Nicolson, 2003).

onwards that they took on their recognisably modern qualities; they had numerous shareholders, limited liability, legal personality, indefinite life, and did not require royal charters or political authorisation. There were many legal steps in this process, but the years around 1860 stand as the real turning point in all of Europe. By 1913, these banks were far bigger than any of the old merchant banks (see Table 5.1).

This movement, which has been called the second financial revolution,[2] oddly receives no mention in key textbooks of international political economy.[3] It led to the creation of the Société Générale, Barclays, as well as the Deutsche Bank, to name only a few. It constitutes the beginning of this chapter's story. Aside from joint stock banks, two additional types of actors entered the world of sovereign lending in the early twentieth century, just after the First World War: credit rating agencies and a newly created international institution. Rating agencies had existed since the second half of the nineteenth century in the United States. However, they only became involved in the business of sovereign lending during the interwar period. As for the international institution, the League of Nations, it was the first multilateral international institution concerned with sovereign lending, particularly through its specialist body, the Economic and Financial Organization (EFO).

The key question I will address in this chapter is how all these new actors differed from the old sovereign lenders, i.e. the merchant banks. In Part I of this thesis, we saw that merchant bankers were characterised by the twin qualities of possessing international networks through familial links, and of having achieved the penetration of political elites across many countries. In a very clear sense, these

[2] The first was the establishment of a permanent public debt. See for instance Peter George Muir Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688-1756* (London: Macmillan, 1967).
[3] See for instance Jeffry A. Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century* (London: W. W. Norton & Company, 2006).

actors were political 'insiders'. In addition, much of the old sovereign lenders' business, whether it pertained to trade or sovereign lending, was based on their social status. Did the new sovereign lenders differ? In this chapter, I will argue that the majority of the new sovereign lenders had in common a status as 'outsiders' in relation to sovereigns. There are two stories here, one for Britain and the United States, and another one for continental Europe. The British and the American stories are ones in which the new banks developed in great isolation from the merchant bankers. In the French and the German stories, the old merchant bankers were involved in a number of new banks. The two first sections of the chapters deal with each 'model' in turn. The third section analyses the rise of two other actors who were outsiders of sorts in the new world of sovereign lending: rating agencies and the international institution that was the League of Nations. The last section concludes and sets out the puzzle for the following chapter.

Table 5.1. *The 20 largest commercial banks compared to N.M. Rothschild & Sons, 1913*

	Total assets (in millions of pounds sterling)
Crédit Lyonnais (France-F)	113
Deutsche Bank (Germany-G)	112
Midland Bank (United Kingdom-UK)	109
Lloyds Bank (UK)	107
Westminster Bank (UK)	104
Société Générale (F)	95
Comptoir Nat. d'Escompte de Paris (F)	75
National Provincial Bank (UK)	74
Dresdner Bank (G)	72
Société Générale de Belgique (Belgium)	72
Barclays Bank (G)	66
Disconto-Gesellschaft (G)	58
National City Bank (United States)	57
Parr's Bank (UK)	52
Credit-Anstalt (Austria)	50
Union of London and Smiths Bank (UK)	49
Guaranty Trust Co. of New York (US)	47
Bank für Handel und Industrie (G)	44
Capital and Counties Bank (UK)	43
London Joint Stock Bank (UK)	41
For comparison:	
N.M. Rothschild & Sons (UK)	25

Sources: Youssef Cassis, *Capitals of Capital* (Cambridge: Cambridge University Press, 2010), 92; Youssef Cassis, 'Private Banks and the Onset of the Corporate Economy', in Youssef Cassis and Phillip Cottrell (eds.), *The World of Private Banking* (Farnham: Ashgate, 2009), 47.

I. The Anglo-American model

By contrast with other European countries, English banking emerged from the late seventeenth century onwards to serve a *domestically* oriented trade.[4] The domestic banking system of England was therefore well developed, albeit not very internationally oriented. Indeed, as was shown in Part I of this thesis, for international financial services, Britain relied on foreigners.[5] The domestic English banks were private deposit banks of six partners or less, as English law did not

[4] Wood, *The Pristine Culture of Capitalism*, 97–98.
[5] On this question see the interesting Stanley D. Chapman, "The International Houses: The Continental Contribution to British Commerce, 1800-1860," *Journal of European Economic History* 6, no. 1 (1977): 5–48.

permit any more.[6] Private bankers were similar to merchant bankers in the sense that they also owned their banks and ran them.[7] However, one important difference was that until the First World War, the merchant banks stood strong, 'while the private bank disappeared almost completely,'[8] and were replaced by joint stock banks.

Nineteenth century British banking legislation was peculiar in the sense that it was parcelled out between England, Scotland and Ireland. The latter two countries had joint stock banks before England, for instance the Royal Bank of Scotland.[9] Because of this, the English could observe the result of joint stock banking experiments in other constituent parts of the realm and take note of their results. Thus, when in 1826 England introduced joint stock banking in a 65 miles radius outside the City of London (a limitation dropped in 1833), it did not really move into uncharted territory.[10] At this point, joint stock banks in England retained full liability for their debts, and joint stock banks were regulated differently from joint stock companies more broadly. The 'Letter Patents' Act of 1834 empowered the Crown to grant joint stock privilege previously given with royal charters through the simpler means of Letters Patent.[11] However, even here the Crown retained the

[6] Colin Arthur Cooke, *Corporation, Trust and Company: An Essay in Legal History* (Manchester: Manchester University Press, 1950), 122. There were thus four types of banks in England: the small private deposit banks (1) and the merchant banks (2), both of which have in common the unlimited liability of their 6 (or less) partners, and the joint stock banks (3) as well as the overseas banks (4), which were essentially joint stock banks based in the Empire.

[7] Cassis, *City Bankers, 1890-1914*, 14. The confusion between private bankers and merchant bankers, which can be observed in some of the literature, lead to confusing claims such as the one made by David Landes that 'the founders of British finance companies were established bankers […] of the same stripe as those who had created the Crédit Mobiliers on the continent.' See Landes, *Bankers and Pashas*, 58.

[8] Cassis, *City Bankers, 1890-1914*, 14–15.

[9] On this question see Charles W. Munn, "The Emergence of Joint-Stock Banking in the British Isles: A Comparative Approach," *Business History* 30, no. 1 (1988): 69–83. There was of course the exception of the Bank of England.

[10] Cooke, *Corporation, Trust and Company*, 121–23; Margaret Ackrill and Leslie Hannah, *Barclays: The Business of Banking, 1690-1996* (Cambridge: Cambridge University Press, 2001), 49.

[11] Cooke, *Corporation, Trust and Company*, 124–25.

privilege of qualifying the limited liability of companies. With the Joint Stock Companies Act of 1844 pushed forward by William Gladstone, then president of the Board of Trade, companies were finally given incorporation rights through a registration procedure. It was only in 1857 that Parliament passed 'An Act to enable joint stock banking companies to be formed on the principle of limited liability', which defined the modern joint stock bank.[12] Interestingly, the privilege of limited liability had been granted to companies (excluding banks) with the Limited Liability Act of 1855 in part because of competition from France and the United States. The legislation on joint stock banks and on joint stock companies was brought under a single regime with the Companies Act of 1862.[13] Thenceforth, joint stock banks could all have many shareholders and limited liability, a situation to be contrasted with merchant banks' maximum of six partners and their unlimited liability.

Some banks took advantage of the new joint stock status as soon as it was created, for instance the Midland Bank, London and Westminster Bank, and the National Provincial bank, which all achieved joint stock status in the 1830s. Others like Lloyds developed as joint stock banks in the 1860s (after the Companies Act of 1862). By 1880, the number of joint stock banks in England and Wales reached an all-time high of 128.[14] In terms of their social standing, it is possible to locate the acceptance of joint stock banks in the world of deposit banking to 1854, when the leading London joint stock banks were admitted to the Clearing house, 'an

[12] Ibid., 166.
[13] Ibid., 167.
[14] Philip L. Cottrell, "United Kingdom," in *Handbook on the History of European Banks*, ed. Manfred Pohl and Sabine Freitag (Aldershot: Edward Elgar, 1994), 1144.

organisation hitherto reserved exclusively for private bankers.'[15] In fact, joint stock banks would soon gobble up these private banks.

Outside London, the shift took place from the mid-1860s onwards, and by 1880 joint stock banks had 'totally gained the upper hand.'[16] Beginning in the 1880s, London private banks were swallowed up by the new joint stock banks, a development known as the amalgamation movement. The prominent financial historian Youssef Cassis has characterised the disappearance of this type of bank as an 'outstanding feature of the period.'[17] The *coup d'envoi* was given in 1884 by the Birmingham-based Lloyds Bank, which amalgamated two major City banks: Barnetts, Hoare & Co. and Bosanquet, Salt & Co.[18] In 1891, Dimsdales amalgamated with Prescotts, who were then acquired by the Union of London and Smith's Bank.[19] In the same year, Midland Bank acquired Lacy, Hartland, Woodbridge & Co. while two years later, Lloyds amalgamated with Herries, Farquhar & Co,[20] prompting the *Bankers' Magazine* to write that:

> Year by year, the private firms are growing fewer in number, and the large joint stock companies are becoming more powerful… Who would have ever thought of Herries Bank ever amalgamating with Lloyds, or indeed with any bank from the City? … Herries! The name is familiar to most business men because there is about and around it an air of antiquity, and a history that commands respect.[21]

The sense of surprise reveals that in the 1890s, the contest between private banks and joint stock banks was not yet won. Indeed, to take an example, in 1891 a large private bank such as Coutts & Co. had similar capital, reserves and deposits as the

[15] Cassis, *City Bankers, 1890-1914*, 16.
[16] Cottrell, "London's First 'Big Bang'? Institutional Change in the City, 1858-1883," 97.
[17] Cassis, *City Bankers, 1890-1914*, 18.
[18] Ibid., 17. Some have also pointed to the London and Westminster Bank's takeover of Lord Overstone's bank, Jones, Loyd & Co. in 1864. Samuel Jones Loyd (Lord Overstone) was one of the main opponents of the emerging joint stock banks. See Theodor E. Gregory, *The Westminster Bank through a Century* (London: Westminster Bank, 1936), 283.
[19] Cassis, *City Bankers, 1890-1914*, 17.
[20] Cottrell, "London's First 'Big Bang'? Institutional Change in the City, 1858-1883," 97–98.
[21] Bankers' Magazine, 60 (1893), pp. 745-746, cited in Cassis, *City Bankers, 1890-1914*, 21.

London and Provincial Bank, a large joint stock bank.[22] As a result of this amalgamation movement, by 1909 there were only two private banks left in the City (see Table 5.2).[23] The joint stock banks thus 'rose to dominate the domestic banking system' during the last third of the nineteenth century.[24]

Table 5.2. *Private banks which were members of the Clearing House, 1870-1914*

	Number of banks
1870	13
1880	12
1890	10
1891	5
1900	4
1910	2
1914	1

Source: Youssef Cassis, *City Bankers, 1890-1914* (Cambridge: Cambridge University Press), p.18

The private bankers had two options, they could either sell or, for a small number of large City banks like Barclays, Glyn's, Smiths and Coutts, grow their business by buying up other banks. Only Barclays chose to pursue the latter course of action. At first, Barclays tried to maintain the structure of a 'private' bank, even after incorporation in 1896; it had only 110 shareholders, and every director was also a 'practitioner' who managed a bank.[25] But as the bank absorbed fourteen banks between 1897 and 1906, this structure became difficult to maintain. Bertram Currie of Glyn, Mills, Currie & Co. came to the conclusion that groupings of select private banks could indeed only be run in the 'joint stock' form.[26] In the run up to the Great War, 'private banks were absorbed one by one.'[27]

[22] Ibid., 20.
[23] Ibid., 15.
[24] Dilley, "Gentlemanly Capitalism and the Dominions," 32.
[25] Cassis, *City Bankers, 1890-1914*, 24.
[26] Ibid., 25.
[27] Ibid., 27.

Interestingly, some of the private bankers that chose to sell and were thus amalgamated, became joint stock bank directors. In the new joint stock banks, the social reproduction of banking families was of course not as easy as within a family-based private bank. And yet, some families, particularly those who belonged to old banking dynasties, managed to perpetuate themselves. To take an example, the chairman of the board at Barclays in 1982 was Timothy Bevan, while the first chairman in 1896 was Francis Augustus Bevan.[28] Barclays was admittedly a special case because it was quite literally a grouping of (mainly Quaker) private banks. However, similar patterns can be observed in other banks. To put figures on this claim, in the period from 1890 to 1914, 96 per cent of directors at Barclays were former private bankers, 64 per cent at Lloyds, 50 per cent at the Union of London and Smiths Bank, 45 per cent at the Capital and Counties Bank, and 35 per cent at Parr's Bank (see Table 5.3). This goes to show the extent of social reproduction in this sector of British society.

Table 5.3. *Proportion of former private bankers and merchants among the directors of joint stock banks, 1890-1914*

Banks	Former private bankers (%)
Barclays & Co.	96
Lloyds Bank	64
Union of London and Smiths Bank	50
Capital and Counties Bank	45
Parr's Bank	35
London and Southwestern Bank	14
London City and Midland Bank	6
National Provincial Bank	0
London and Provincial Bank	0

Source: Youssef Cassis, *City Bankers* (Cambridge: Cambridge University Press, 1994), 55.

The private bankers that joint stock banks amalgamated stood rather high in terms of social status and bear some resemblance to merchant bankers. As Walter Bagehot put it, they represented 'a certain union of pecuniary sagacity and educated

[28] Ibid.

refinement which was scarcely to be found in any other part of society.'[29] This is in a clear sense totally unsurprising as these bankers, particularly those in the West End of London, were for a long time providers of banking services to the aristocracy.[30] Private bankers were the most highly educated in the banking profession; 72 per cent had a public school and/or an Oxbridge education, a higher number than for the merchant bankers.[31] This therefore means that a large number of joint stock bank directors who hailed from private banks had been well educated, and qualified as gentlemen. What then, made the British joint stock banks different from the merchant banks, if some of them had a large number of gentlemen at their head? The answer is beguilingly simple. Though these were gentlemen, they lacked a key feature that merchant bankers possessed: an international network. These were, after all, domestic bankers. They could obtain all the education they wanted, it was not going to make up for their lack of cousins in Frankfurt, Naples and Paris.

Because joint stock bankers did not have networks, 'they tended […] to lack the detailed knowledge of foreign finances and connections with foreign governments needed to compete fully with the merchant banks.'[32] In any case, most British joint stock banks were busy 'digesting their successive absorptions',[33] and so did not become seriously involved in foreign finance before the early twentieth century.[34] When they eventually started engaging in foreign business they had to

[29] Walter Bagehot cited in Ackrill and Hannah, *Barclays*, 49.
[30] Cassis, *City Bankers, 1890-1914*, 17.
[31] Ibid., 102. The common features of private bankers and merchant bankers' educational profiles and lifestyle sometimes lead to confusion between the two groups. See Cottrell, "United Kingdom," 1143.
[32] Dilley, "Gentlemanly Capitalism and the Dominions," 32.
[33] Cassis, *City Bankers, 1890-1914*, 43.
[34] There were naturally some exceptions. An interesting one was Parr's, a bank involved in loan issues to Japan in the late 1890s and early 1900s. The main reason for this development was rather idiosyncratic: Parr's hired Allan Shand who had worked for the Yokohama branch of the Chartered Mercantile Bank, a British imperial bank. While in Japan, Shand had taught a course on public finance organised by the Ministry of Finance, and attended by Japan's first generation of modern bankers, but also government officials. He thus had extensive contacts with government officials and the banking community of Japan. Philip L. Cottrell, "Great Britain," in *International Banking*

know foreign sovereigns in a way that differed strongly from how merchant bankers went about this task. For instance, the joint stock bank that turned the most rapidly to foreign investments and which also happened to be the largest was Midland Bank.[35] It was also one of the banks with the least well educated directors; only 17 per cent had an Oxbridge and/or public school education.[36] In order to proceed with this new endeavour, Edward Holden, the chairman of the bank, opened a foreign exchange department early in 1905.[37] This was so unusual that the department 'was criticized in the City as being outside the scope' of a joint stock bank's activities.[38] The next chapter will delve more thoroughly in the precise method and form of knowledge that these banks used to know sovereigns. For now, it is worth noting

1870-1914, ed. Rondo Cameron and Valerii I. Bovykin (Oxford: Oxford University Press, 1991), 37. A. R. Holmes and Emmanuel Cooper, *Midland: 150 Years of Banking Business* (London: Batsford, 1986), 135. On this issue, see the interesting Suzuki, *Japanese Government Loan Issues on the London Capital Market, 1870-1913*. In addition to Parr's curious case, there was the London Joint Stock Bank case, also noted as an exception by a number of scholars. In 1870, the German Disconto-Gesellschaft asked N.M. Rothschild & Sons to issue a loan to finance the Franco-Prussian War, but Rothschilds refused in part because of their strong connection to Rothschild Frères. At this point David Hansemann, chairman of the Disconto-Gesellschaft, approached the London Joint Stock Bank who issued the Treasury bonds. The key point here is that the change was taking place in Germany, not in England. John Martin Kleeberg, "The Disconto-Gesellschaft and German Industrialization: A Critical Examination of the Career of a German Universal Bank, 1851-1914" (DPhil Thesis, University of Oxford, 1988), 190; Thomas Balogh, *Studies in Financial Organization* (Cambridge: Cambridge University Press, 1950), 112.

[35] Holmes and Cooper, *Midland*, 134.

[36] Cassis, *City Bankers, 1890-1914*, 104.

[37] Holmes and Cooper, *Midland*, 134.

[38] Ibid., 134–35. Of course, there was another type of joint stock bank involved in foreign operations, and that was the overseas bank of which the Hongkong and Shanghai Bank (later HSBC) is the prime example. A fascinating introduction to this area of international finance is Roberta A. Dayer, *Finance and Empire: Sir Charles Addis, 1861-1945* (Basingstoke: Macmillan, 1988). For an institutional history, see also Frank H. H. King, *History of the Hongkong and Shanghai Banking Corporation*, 4 vols. (Cambridge: Cambridge University Press, 1987). However, I will neither deal with this type of bank in the present chapter, nor in the rest of the thesis. In the introduction, I set out to explore how bankers knew sovereigns specifically in order to engage in the practice of sovereign lending. The overseas banks did not lend to sovereigns. They dealt with colonies where credit risk was mitigated by a unified jurisdictional system, and with countries whose finances were under the direct management of western powers, for instance the Ottoman Empire and China. See Cain and Hopkins, *British Imperialism*, 360; Accominotti, Flandreau, and Rezzik, "The Spread of Empire: Clio and the Measurement of Colonial Borrowing Costs." The Bank of England and the London & Westminster Bank were both also involved in bond issues for self-governing colonies and their constituent states. See Sunderland, *Managing the British Empire*, 152–53.

that those in charge of producing knowledge about foreign sovereigns in these new banks were not the directors but a new class of professionals.

The differences between joint stock banks and merchant banks were sustained by the structure of British banking itself, which consecrated merchant banks as the core 'Inner Sanctum' of the City.[39] The most striking institutional expression of this fact was the exclusion of deposit banks from the Court of Directors of the Bank of England until the 1950s,[40] an issue I explored in my discussion of merchant bankers in Chapter 3. A clear expression of the marginalisation of joint stock banks can also be found in the case of the Argentine default of 1890, which nearly destroyed Barings. During this crisis, the merchant banks relied only on themselves and on the Governor of the Bank of England, Viscount Goschen – also a merchant banker at Goschen & Frühling. As De Cecco puts it

> All the outer layer of the financial system had to remain excluded […] and even the existence of the crisis had to remain unknown to them as long as possible. […] In the event of a panic, the joint-stock banks would inevitably act in a totally egotistic manner and engage in a *sauve qui peut* operation.[41]

Together merchant banks secretly pledged sums of money ranging from £200,000 to £500,000 to save Barings. The joint stock banks were only informed a day after this deal had been struck, and were eventually asked to contribute to the financial package.[42] They were entirely excluded from important financial decisions. The disdain that merchant banks had for the joint stock banks is nicely captured in a letter from November 1890 written by Rodolphe Hottinguer, the head of Barings'

[39] De Cecco, *Money and Empire*, 95. Though some merchant banks were represented on the board of joint stock banks, there were not 'very many' and they were 'not necessarily the most important.' See Cassis, *City Bankers, 1890-1914*, 58.
[40] Lisle-Williams, "Beyond the Market," 246.
[41] De Cecco, *Money and Empire*, 95.
[42] Ibid., 92–95.

sister house in Paris, after Barings had been forced to incorporate as a limited liability company. In this letter, Rodolphe Hottinguer conveys his hope that 'it will quite soon be possible to do away with the word limited imposed by circumstances.'[43] In 1914, over two decades after this crisis, joint stock bankers were still as marginalised. They went so far as to create a Secret Gold Reserve Committee, dominated by Edward Holden from Midland Bank, to 'accumulate gold reserves to rival the official Bank of England reserves.'[44] In addition to considering these reserves insufficient, they had no say in their use in times of crisis. All these examples go a long way to illustrate the position of joint stock banks in relation to merchant banks. They were true outsiders, excluded from the charmed circle of merchant bankers and deemed unfit to enjoy the privileges and assume the responsibilities of the far more gentlemanly merchant bankers.

In another institution created in 1868 to defend the rights of bondholders, the Corporation of Foreign Bondholders (CFB),[45] it was the joint stock banks who managed to exclude the merchant banks. In addition to providing information about foreign states to bondholders, the CFB was meant to represent bondholders' interests in the negotiations that took place between creditors and sovereigns after defaults. The goal was to render access to the London market difficult prior to any satisfactory settlement of a sovereign's default. Bondholders had to be represented by a specific group of people; it was the Governing Council of the CFB that fulfilled this task. At the time, the inclusion in the Council of 'members of those eminent houses who have had experience in dealing with foreign governments' was a matter

[43] Cassis, *City Bankers, 1890-1914*, 25.
[44] De Cecco, *Money and Empire*, 132–33.
[45] Esteves, "Quis Custodiet Quem?," 5.

of course.[46] For this reason, until 1898 the CFB was criticised as an institution that pursued merchant banks' interests and did not push sufficiently strongly for settlements of sovereign defaults favourable to bondholders.[47] The rationale was that sovereign lending was a lucrative business for merchant banks, so they had less incentives to punish defaulting states. After 1898 and the reorganisation of the CFB with the Corporation of Foreign Bondholders Act, merchant bankers became ineligible to the governing council of the CFB, while the representatives of the Big Five joint stock banks were all represented.[48] It is in a sense unsurprising that joint stock banks and bondholders joined forces through the CFB, as they were all, by comparison with merchant bankers, outsiders in sovereign lending.[49]

As I stated in the introduction to this chapter, the American experience was similar to the British one in so far as merchant bankers were not involved in the creation of joint stock banks. To a large extent, the American story follows the British model, specifically in terms of the division of labour that existed between merchant banks and joint stock banks, which is why one scholar has called the United States the 'mirror reflection' of Great Britain.[50] As the largest capital importer in the period 1870-1914, the United States relied intensely on private bankers to channel the inflow of foreign capital.[51] As in Europe, these banks did not publish their financial

[46] Edwin Borchard, "Foreign Bondholders' Protective Organisations" (Faculty Scholarship Series paper n. 3444, Yale University, 1933), 285, http://digitalcommons.law.yale.edu/fss_papers/3444.
[47] Feis, *Europe, the World's Banker, 1870-1914*, 113.
[48] Borchard, "Foreign Bondholders' Protective Organisations," 288–89.
[49] Because the opposition between merchant banks and joint stock banks was less pronounced in France and Germany, we do not see similar fighting over their CFB-equivalents. In France, the association created in 1898 was said to be too subservient to political power. In Germany, most banks were opposed to the creation of such an institution, apart from the Deutsche Bank (it appears to have been its chairman's – Georg Siemens – personal project). Such an association only saw the light of day in 1927. See Esteves, "Quis Custodiet Quem?," 5–7, Appendix I.
[50] Rondo Cameron, "Introduction," in *International Banking 1870-1914*, ed. Rondo Cameron and Valerii I. Bovykin (Oxford: Oxford University Press, 1991), 14–15.
[51] Wilkins, *The History of Foreign Investment in the United States to 1914*, 463, 467.

statements; they relied on the 'complete faith' of customers 'based solely on reputation and word of mouth.'[52] It comes as no surprise then that during the 1912 Pujo Congressional Committee hearings, John Pierpont Morgan claimed that the banking system 'was built on honor and character more than money,' that banking 'was a matter of trust' and that 'in such matters social background was an important factor.'[53] The persistence and strength of private bankers in the United States is so striking that Karl Erich Born, a German historian says of it

> It is a very astonishing phenomenon in the history of banking that in the United States a few big private bankers were able to uphold their position among the greatest financial powers in the country; what is more, well into our own century, the most influential money and credit institution in America was a private banker![54]

Many of the American private houses engaged in international finance were European or linked through family to British and European bankers (e.g. Morgans, Barings, Browns, Kleinworts, Lazards, Kuhns, Rothschilds and Speyers).[55] The establishment of local agencies representing foreign banks was basically out of the question because of protectionist legislation,[56] but co-partnerships were possible if the bank had American citizens in it (e.g. Morgans). An alternative was to act through agents, for instance the Rothschilds who relied on August Belmont Sr.[57]

In terms of banking, it is impossible to even say that the United States had a 'national banking system.'[58] The rise of joint stock bank legislation between 1780 and the 1860s had developed in a rather piecemeal fashion, as 'each of the states of

[52] Charles R. Geisst, *Wall Street: A History* (Oxford: Oxford University Press, 2012), 120.
[53] Ibid., 124.
[54] Karl Erich Born cited in Vincent P. Carosso and Richard Sylla, "U.S. Banks in International Finance," in *International Banking 1870-1914*, ed. Rondo Cameron and Valerii I. Bovykin (Oxford: Oxford University Press, 1991), 50–51.
[55] Wilkins, *The History of Foreign Investment in the United States to 1914*, 476–77.
[56] Ibid., 456.
[57] Ibid., 474.
[58] Ibid., 455.

the Union had developed its own joint stock banking laws.'[59] In the state of New York, which also happened to be the United States' financial capital, out-of-state and foreign banks were heavily restricted, in the sense that these institutions could not engage in banking activities like receiving deposits, discount notes or bills, and issue debt. In April 1880, a bill was even passed to tax foreign bank capital.[60] In 1881, companies incorporated in New York were still limited to a capital of $2 million and in 1890 to $5 million when in England those limits had been abandoned for over thirty years. These changes were part of what legal scholar Morton J. Horwitz has termed the transformation of American law, an abandonment of the conservative worldview of the role of the state due to the 'rapid centralization of economic power' and 'cartelization' of the American economy.[61]

There was of course federal legislation under which banks could incorporate, but it included important limitations. The National Banking Act of 1864 made these limitations abundantly clear.[62] For instance, though foreigners could be shareholders in joint stock banks, the directors had to be U.S. citizens and resident in the state where business was done. In addition, national banks 'could not grow as a firm beyond a specified and very limited locale,'[63] leading one scholar to claim that 'US banks were confined to their home state, and most states restricted banks to a single office within that state.'[64] And yet, through regulation, the United States managed to create large joint stock banks and a financial centre. Quite simply, the regulations imposed by the National Banking Acts of 1863 and 1864

[59] Carosso and Sylla, "U.S. Banks in International Finance," 51.
[60] Wilkins, *The History of Foreign Investment in the United States to 1914*, 467.
[61] Morton J. Horwitz, *The Transformation of American Law, 1870-1960: The Crisis of Legal Orthodoxy* (Oxford: Oxford University Press, 1992), 4.
[62] Wilkins, *The History of Foreign Investment in the United States to 1914*, 455.
[63] Ibid.
[64] Thomas F. Huertas, "US Multinational Banking: History and Prospects," in *Banks as Multinationals*, ed. Geoffrey Jones (London: Routledge, 1990), 249.

had created three classes of banks: non-reserve ('country') banks, reserve-city banks, and central-reserve-city banks.[65] The country banks had to have a reserve of 15 per cent against their liability deposits, and 9 per cent could take the form of deposits in reserve-city banks. In turn the reserve-city banks had to amass reserves of 25 per cent against their liability deposits, of which 12.5 per cent could take the form of deposits in central-reserve-city banks.[66] The latter category were essentially 'national banks of New York City' and were in some sense the nation's central bank, acting as lenders of last resort until 1914.[67]

Joint stock banks were not involved in any significant way in international finance. Some had opened foreign exchange departments to serve their multinational clients, for instance the First National of Chicago as early as 1873, the Bank of New York in 1893, and National City Bank in 1897.[68] In fact, Edward Holden from Midland Bank (in Britain) had taken inspiration from the latter case to create his own foreign exchange service in 1905. Because of joint stock banks' absence from international finance, when the United States started exporting capital 'on a large scale, it was the private banks rather than the joint-stock banks that played the leading role.'[69] Only in 1914 did the Federal Reserve Act permit nationally chartered banks with capital in excess of $1 million to establish branches overseas.[70] National City Bank (later Citibank), the largest American corporate bank, only opened an office abroad – in Buenos Aires – in 1914.[71] What happened was that the New York joint stock banks 'placed considerable amounts of their

[65] Carosso and Sylla, "U.S. Banks in International Finance," 54.
[66] Ibid.
[67] Ibid. This organisation greatly affected the United States' central banking model on the longer run.
[68] Ibid., 68.
[69] Cameron, "Introduction," 15.
[70] Huertas, "US Multinational Banking: History and Prospects," 250; Carosso and Sylla, "U.S. Banks in International Finance," 52–53.
[71] Huertas, "US Multinational Banking: History and Prospects," 250.

resources at the disposal of the big private bankers,' which I mentioned above.[72] Thus, National City Bank, the largest American joint stock bank, formed an alliance with private bank Kuhn, Loeb & Co.,[73] because it 'had the ability to originate securities as well as European investment connections.'[74] Despite its much larger size in terms of capital and deposits, National City Bank remained the junior partner.[75]

During the First World War, J.P. Morgan led a number of syndicates of private bankers for British and French loans, for instance with the $500 million loan of 1915. The dominance of private bankers in international finance continued throughout the interwar years. From 1927 onwards, commercial banks received the authorisation to engage in equities underwriting,[76] but the Glass-Steagall Act of 1933 terminated the overlapping of commercial and investment banking. Most private banks chose to remain in the securities business, whilst J.P. Morgan who had always accepted deposits from large commercial clients, split its business into two companies: J.P. Morgan & Co, which chose to focus on commercial banking, and the investment bank Morgan Stanley (created in 1935).[77] By 1934, the New Deal had 'delivered a severe blow to the independence and swagger of Wall Street.'[78]

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[72] Carosso and Sylla, "U.S. Banks in International Finance," 54–55.
[73] Partners in this bank included Jacob Schiff and Paul Warburg.
[74] Carosso and Sylla, "U.S. Banks in International Finance," 68.
[75] Ibid., 69.
[76] Geisst, *Wall Street*, 178.
[77] Interestingly, after this splitting of the banks, companies continued to use the same underwriters they had used in the past to issue their securities. As a top tier house inheriting J.P. Morgan & Co.'s prestige, Morgan Stanley remained the most reputable securities issuer. See Ibid., 256–59.
[78] Ibid., 241. It appears that one key element of the blow dealt to Wall Street and particularly the main investment banks was the *Securities and Exchange Commission*'s rule U-50. This rule required public utility companies to obtain competitive bids from underwriters. In others words, the SEC was forcing investment banks to compete and allowing public utilities to move beyond the old relationship banking which they had with bankers. See Ibid., 263–64.

In the American case as in the English case, there was little overlap between the individuals in merchant banks and those in the joint stock banks. The former were happy to invest the latter's capital, but that was the extent of their bonds.[79] On the whole, the picture painted here of American joint stock banks is that of a very domestically oriented class of actors, which though it was much larger than private banks in terms of capital, remained subservient to the merchant banks in international finance, at least until 1914. Like their English counterparts, American joint stock banks were outsiders in the business of sovereign lending when compared with the merchant bankers. They would have to wait a few decades before becoming active in this business. On the European continent, specifically in France and Germany, the picture was a little more complicated.

II. The Continental model

Before I delve into the continental model, it is worth pausing for an instant to note that neither Paris nor Berlin was the centre of nineteenth and twentieth century international finance.[80] Paris was a faithful second in the long nineteenth century, and moved further down the ranks once New York ascended after the First World War. Berlin emerged as a second-tier financial centre after 1870, precisely because of the rise of new German banks. In this sense, the specific nature of banking in these financial centres had less immediate consequences for sovereign lending than those found in London and later, New York.

[79] Merchant bankers sometimes had shares in these joint stock banks, as it could always profitable. In England, some of them even had seats on the boards of London joint stock banks, but 'there were not very many' and they were 'not necessarily the most important.' Cassis, *City Bankers, 1890-1914*, 58–59.

[80] On this broad issue see Youssef Cassis and Eric Bussière, *London and Paris as International Finance Centres in the Twentieth Century* (Oxford: Oxford University Press, 2005); Youssef Cassis, *Capitals of Capital: The Rise and Fall of International Financial Centres 1780-2009* (Cambridge: Cambridge University Press, 2010).

In France and Germany, the separation between old and new banks was not as clear-cut as in Great Britain and the United States.[81] In France, the *haute banque* was involved in the creation of a number of important joint stock banks. In this sense, it is quite true to say that from the very start, the old banks were involved in the creation of the new ones.[82] And yet, seeing the old banks as entirely favourable to the new actors would be far from the truth. There are two elements to consider in the analysis. The first is that it was often the more marginal merchant banks that embraced joint stock status. In the words of David Landes,

> It is certainly not a coincidence that merchant bankers who created new banks after 1850 – the Foulds of Paris and the Oppenheims from Cologne, for example – were precisely those houses whose ambitions in the realm of finance […] went largely beyond their resources as merchant banks.[83]

In other words, joint stock banks were a means for second tier merchant banks to realise their grand ambitions. Economic historian Hubert Bonin advances a possible explanation for this, which is that apart from a few banking houses, most French merchant banks' connections with great American, English and German banks were not as strong or diverse in the late nineteenth century as their English counterparts'.[84] The second point to consider pertains to the types of joint stock banks that merchant bankers created. The new banks that the *haute banque* created, the *banques d'affaires*, were not involved in taking the deposits of the population-at-large. It was a different group of individuals that developed the first joint stock banks based on deposits, the *banque de dépôts*. These two types of joint stock banks

[81] Cameron, "Introduction," 9. On France in particular, see from the same author, Rondo E. Cameron, *France and the Economic Development of Europe, 1800-1914: Conquests of Peace and Seeds of War* (Princeton: Princeton University Press, 1961).
[82] David Landes makes this point in his classic article, David S. Landes, "Vieille banque et banque nouvelle: La révolution financière du dix-neuvième siècle," *Revue d'histoire moderne et contemporaine* 3, no. 3 (July 1, 1956): 217.
[83] Ibid., 218.
[84] Hubert Bonin, "The Case of the French Banks," in *International Banking 1870-1914*, ed. Rondo Cameron and Valerii I. Bovykin (Oxford: Oxford University Press, 1991), 78.

became involved in foreign business, but of course, they could not rely on the same type of knowledge. This is an issue I will explore in depth in the next chapter. In any case, the involvement of joint stock banks in foreign business and sovereign lending which characterises the continental model differs from the British and American cases. The German story with which I deal as part of the continental model resembles the French one and is in fact connected to it.[85]

In France, the key period for the rise of joint stock banks was the Second Empire (1852-1871), under Napoleon III's rule. However, one major episode preceded this turning point. After the fall of the First French Empire and the Restoration of the Bourbon dynasty, the banker Jacques Laffitte made proposals twice to create a *Caisse Générale du Commerce et de l'Industrie* that would fund nascent French industries, specifically ironworks and railways. The first one was supposed to have a capital of 240 million francs, while the second was for 100 million francs. The conservative power in place, the restored Bourbon Monarchy, thought that this bank would concentrate too much economic power and only accepted a more modest proposal for a bank with a capital of 35 million francs in 1837.[86] A number of similar institutions emerged in the same period, but they all disappeared during the crisis of 1847/8.[87]

[85] These commonalities may be indicative of Germany's, and to a lesser extent, France's economic 'backwardness' in relation to England, and in this respect might be explained by the theory of uneven and combined development. On the relation between economic backwardness and the theory of 'uneven and combined development,' see for instance Justin Rosenberg, "Kenneth Waltz and Leon Trotsky: Anarchy in the Mirror of Uneven and Combined Development," *International Politics* 50, no. 2 (2013): 183–230; Ben Selwyn, "Trotsky, Gerschenkron and the Political Economy of Late Capitalist Development," *Economy and Society* 40, no. 3 (2011): 421–50. The classic statement on economic backwardness is Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, MA: Belknap Press, 1962). On this question see also Wood, *The Pristine Culture of Capitalism*.

[86] Cassis, *Capitals of Capital*, 47; Kindleberger, *A Financial History of Western Europe*, 104.

[87] Kindleberger, *A Financial History of Western Europe*, 104; Alain Plessis, "The History of Banks in France," in *Handbook on the History of European Banks*, ed. Manfred Pohl and Sabine Freitag (Aldershot: Edward Elgar, 1994), 188–89. This was the crisis which led to the creation of the

In the very early years of the Second French Empire (1851-1871), Napoleon III was keen on getting rid of the pervasive influence of the *haute banque*, especially the Rothschilds.[88] To this end, in 1852 he authorised the creation of two banks, namely the Crédit Foncier, a mortgage bank, and the Crédit Mobilier, initially intended as a railway bank.[89] The former's role was to finance the transformation of large cities, though it briefly engaged in loans to Egypt as part of a consortium, after which it returned to its original business.[90] The Crédit Mobilier, created by the brothers Péreire (Emile and Isaac, both ex-Rothschild employees) with Napoleon's blessing, was perceived by James de Rothschild as a personal affront. This was not so much because they were newcomers, but because they were trying to undermine his hegemony.[91] To rival the Crédit Mobilier in France, Rothschild led a group of prominent bankers informally known as the Réunion Financière (or Syndicat des banquiers).[92] The battle that ensued was vigorous. James de Rothschild first tried to lower the value of the Credit's shares on the Paris bourse. When the Crédit

Comptoir d'Escompte de Paris, by statesmen of the Second Republic (1848-1852), the second French experience with joint stock banks. See Nicolas Stoskopf, "La fondation du comptoir national d'escompte de Paris, banque révolutionnaire (1848)," *Histoire, économie et société* 21, no. 3 (2002): 395–411. A rather crucial element here is that Jacques Laffitte was a French Catholic banker. His work and his bank had not been dependent upon migration and networks by comparison with his Protestant and Jewish counterparts' in the merchant banking business. Laffitte was the trainee and later partner of one of the most important bankers of the Ancien Régime, Jean Frédéric Perregaux, until the latter's death in 1808. He had been provisional Governor of the Banque de France in the early years of the Restoration, and had close links with Napoleon's financier, Gabriel-Julien Ouvrard. Thus, as long as joint stock banks required specific authorisations from the government, Laffitte was much better place than foreign 'upstarts' to obtain the legal right to create an entity like the *Caisse*. See Fritz Redlich, "Jacques Laffitte and the Beginnings of Investment Banking in France," *Bulletin of the Business Historical Society* 22, no. 4/6 (1948): 137–61.

[88] Landes, "Vieille banque et banque nouvelle," 205.

[89] Plessis, "The History of Banks in France," 189. The full names of these entities are Société Générale du Crédit Foncier and Société Générale du Crédit Mobilier.

[90] The Crédit Foncier assisted in the formation of similar banks abroad, such as the Preussische Central Bodencredit A.G., the United States Mortgage Company, and the Banco Hipotecario de España. See Cameron, "Introduction," 8. As an aside, it is interesting to note that a key area of business for the Credit Foncier was the financing of the reconstruction of Paris conducted by Baron Haussmann, a man famous for creating modern Paris and its large boulevards where it was possible to fit an army to suppress popular uprisings.

[91] Landes, "Vieille banque et banque nouvelle," 205. There is a question to be posed regarding the influence of the earlier experience of the Dutch *Algemeene Nederlandsche Maatschappij* (later Belgian, Société Générale de Belgique) founded in 1822.

[92] Cameron, "Introduction," 11.

Mobilier moved to create an Austrian railway company in 1854-55, Rothschild followed suit by creating one as well; when the Mobilier launched a 'Spanish' Credit Mobilier in 1856, the Rothschilds replicated by developing the 'sociedad espanola mercantil e industrial'; and finally, still in the same year, when the Péreire brothers proposed the creation of a similar bank in Austria, the Rothschilds, who had always considered Austrian finances as an 'exclusive fief,'[93] used their connections with the Imperial government to make a counter-offer which resulted in the creation of the Austrian Credit-Anstalt.[94] This later became the largest bank in the Austro-Hungarian Empire.[95] The rivalry between the Rothschilds and the Crédit Mobilier lasted into the 1860s, as the Credit Mobilier went on 'to promote banks, railways, and industrial enterprises in Switzerland, Austria, Russia, Spain, Italy, and the Ottoman Empire.'[96] In 1866, after a crisis and eventual failure, the Péreires brothers were forced to resign at the request of the Banque de France.[97] The company was dissolved in 1871.[98] Its life lasted exactly as long as the Second Empire's, illustrating the political nature of the bank's backing.[99]

The Crédit Mobilier provided an early example of a functioning joint stock bank engaged in many different operations to other European countries. In

[93] Ibid., 9. On the relation between the Rothschilds and Metternich, see Niall Ferguson, "Metternich and the Rothschilds: 'A Dance With Torches on Powder Kegs'?," *The Leo Baeck Institute Yearbook* 46, no. 1 (2001): 19–54.
[94] Landes, "Vieille banque et banque nouvelle," 206. Though I will not be dealing with Austria in this chapter, it is interesting to note that one scholar claims the title of 'first universal bank' for the Credit-Anstalt. In other words, according to her, it was in Austria that this banking model emerged, not Germany. See Alice Teichova, "Banking in Austria," in *Handbook on the History of European Banks*, ed. Manfred Pohl and Sabine Freitag (Aldershot: Edward Elgar, 1994), 4.
[95] Teichova, "Banking in Austria," 28.
[96] Cameron, "Introduction," 9.
[97] Plessis, "The History of Banks in France," 189; Bonin, "The Case of the French Banks," 73. There was in fact one other joint stock bank in Germany prior to the creation of the Darmstädter. In 1848, the Cologne bank, *A. Schaffhausen'scher Bankverein* received a joint stock charter from the Prussian government as an emergency measure to prevent its default.
[98] Bigo, *Les banques françaises au cours du XIXe siècle*, 189.
[99] Michael Stürmer, Gabriele Teichmann, and Wilhelm Treue, *Striking the Balance: Sal. Oppenheim Jr. & Cie: A Family and a Bank*, trans. Ewald Osers (London: Weidenfeld and Nicolson, 1994), 135.

particular, it had participated as early as 1853 in the creation of the first German joint stock bank, the Bank für Handel und Industrie in Darmstadt (Darmstädter).[100] In 1856, the Rothschild themselves, through their Berlin-based agent Gerson Bleichröder, participated in the creation of the Berliner Handels-Gesellschaft. The bank was organised as a company without limited liability (*Kommanditgesellschaft auf Aktien*) as it was unable to obtain a charter from the Prussian government.[101] Meanwhile, David Hansemann, erstwhile Prussian Minister of Finance and then head of the Disconto-Gesellschaft (founded in 1851 on the model of the French Comptoir National d'Escompte de Paris), converted his bank to a 'mobilier-type' operation.[102] Taken together, these operations display the potent influence that innovative French banking practice and thought was having on central Europe.

Until the 1860s, joint stock banks had been a very political affair in France. State consent was necessary to form this type of business. As a result all the banks that were created from the early nineteenth century to this time had political connections and support. The law of 23 May 1863 changed this state of affairs. It permitted the creation of joint stock banks with a capital of less than 20 million francs, without governmental authorisation. Four years later, in 1867, all restrictions were lifted and there were no more limitations on bank's capital. These two legal changes constituted, as in other countries, a decisive change in the relations between banks

[100] Some of the founders or first subscribers to the shares of the Credit Mobilier, specifically the Cologne banking firm Sal. Oppenheim Jr. & Cie, were key players in the development of the Darmstädter. Oppenheim was related to Benoit Fould, a French banker in the firm B.L. Fould & Fould-Oppenheim, brother of the Minister of State Achille Fould. Richard Tilly, "Germany," in *Handbook on the History of European Banks*, ed. Manfred Pohl and Sabine Freitag (Aldershot: Edward Elgar, 1994), 303; Cameron, *France and the Economic Development of Europe, 1800-1914*, 137, 148–49; Stürmer, Teichmann, and Treue, *Striking the Balance*, 135–40.
[101] Lothar Gall et al., *The Deutsche Bank, 1870-1995* (London: Weidenfeld & Nicolson, 1995), 2–3.
[102] Cameron, "Introduction," 10.

and states.[103] As a result, a number of 'new banks' were created, some of which would go on to dominate French, European, and global finance until the present day. These banks can be divided in two groups, deposit banks (banques de dépôt) such as the Crédit Lyonnais and Société Générale, and investment banks (banques d'affaires) such as the Banque de Paris et des Pays-Bas (later Paribas) and the Banque de l'Union Parisienne.[104] These bank types differed specifically in terms of their business model and of the people who created them, though they often worked in tandem, the deposit banks helping the investment banks to place their securities.[105] The deposit banks were outsiders in international finance, while the investment banks were to a large extent the continuation of the *haute banque*. In order to make these differences salient, I will briefly explore an example from each end of the spectrum that runs from deposit to investment banks: the Crédit Lyonnais and the Banque de Paris et des Pays-Bas.

Henri Germain founded the Crédit Lyonnais in 1863, with a capital of 20 million francs. Germain, it is important to note, was not part of a Baring, Rothschild, Morgan or Hottinguer-like family. Other individuals involved from the first board meeting onwards included two bankers from Geneva, a money-changer, three tradesmen, two minor Parisian bankers, one director of a public utilities company, another from a railways company, and two administrators of ironworks.[106] While

[103] In the 1970s, French economic historian Jean Bouvier complained that the laws of 1863 and 1867 had not been the subject of a thorough history, a complaint which is unfortunately still true. See Jean Bouvier, *Un siècle de banque française* (Paris: Hachette, 1973), 91–94.
[104] This distinction is central to understand how these banks differed in terms of sociological characteristics. It is central to two key works on French finance, see Bigo, *Les banques françaises au cours du XIXe siècle*; Hubert Bonin, *Le monde des banquiers français au XXe siècle* (Paris: Editions Complexe, 2000). Of course, there were also imperial banks, equivalent to the British overseas banks, for instance the Banque de l'Indochine, which lasted far into the twentieth century. In fact, 40 per cent of the Banque de l'Indochine's business was related to Chinese affairs – the HSBC's home market. See Plessis, "The History of Banks in France," 210–12.
[105] Bonin, *Le monde des banquiers français au XXe siècle*, 41–42.
[106] Bigo, *Les banques françaises au cours du XIXe siècle*, 169.

this group was certainly respectable by national standards, it was nothing like the banking aristocracy that gave rise to some of the investment banks, as we will see later. What one finds here is a very national, not to say regional, bank. Its business model was based on the large-scale collection of people's deposits. Germain had studied English banks closely, and it is thus no surprise that the Crédit Lyonnais 'took to hunting down deposits.'[107] It 'imitated the English banks' by creating a 'whole network of branches' and using the services of door-to-door salesmen,' so that by 1914, it was the leading French bank and had more than 600,000 account holders.[108] Because it was a deposit bank, the Crédit Lyonnais had to be extremely careful with the use of the capital it held, an understanding clearly expressed in the 'Germain doctrine.' As soon as the bank decided to become involved in foreign lending in the 1870s – by 1879 it had offices in London, Geneva, Madrid, Alexandria, Constantinople, and St Petersburg – it faced two problems. The first was the exceeding difficulty of entering the 'concert of great banking houses that were normally in charge of these types of operations.'[109] The second issue was that the Crédit Lyonnais simply had no knowledge of foreign states; in the words of Marc Flandreau:

> But whereas the success of the Haute Banque was built on the penetration of the political structures of European governments […], the Lyonnais had to construct its knowledge brick by brick.[110]

In the next chapter, I will explore what this knowledge consisted of in more detail. But for now, it is sufficient to say that the documentation and knowledge that the Crédit Lyonnais built was so extensive that the work of the Versailles Peace

[107] Plessis, "The History of Banks in France," 189.
[108] Ibid.
[109] Bertrand Gille, *La banque en France au XIXe siècle: Recherches historiques* (Paris: Droz, 1970), 243.
[110] Marc Flandreau, "Le Service Des Etudes Financières Sous Henri Germain (1871-1905): Une Macro-Économie D'acteurs," in *Le Crédit Lyonnais, 1863-1986: Études Historiques* (Paris: Droz, 2003), 273.

Conference relied on it extensively.[111] This output was the result of the Crédit Lyonnais' position as an outsider in international finance, a characteristic reflective of the experience of deposit banks.

The Banque de Paris et des Pays-Bas (BPPB), later called Paribas, was created in 1872 and represents the alternative model, namely the *banque d'affaires*. On the eve of the First World War, it was the largest French *banque d'affaires*. Investment banks had a much larger starting capital than deposit banks, which they could use without fear of rumours about mismanagement that sometimes led to runs on deposits.[112] In the case of the BPPB, the starting capital was 62.5 million francs and reached over 100 million francs by 1914.[113] The BPPB was the result of a bank merger. The first bank was the Banque de Paris, founded in 1869 by a group of Parisian bankers including A. Delahante, E. Joubert and H. Cernuschi.[114] The second bank was the Banque de Crédit et de Dépôt des Pays-Bas, founded in 1863 in Amsterdam by the Bischoffsheims with branches in Paris, Brussels, Antwerp and Geneva.[115] This bank, assembled around Louis-Raphaël Bischoffsheim, brought together French financiers such as Edouard Hentsch and Alphonse Pinard, but also families originating from Germany and based in other European countries such as the Bischoffsheims, Goldschmidts and Bambergers.[116] The Bischoffsheims (originally from Mainz) had started in Amsterdam, where two brothers married two Goldschmidt sisters, from a Frankfurt banking family. Out of this union later

[111] Bernard Desjardins and Alain Plessis, "L'entreprise, ses hommes, ses métiers," in *Le Crédit Lyonnais, 1863-1986: Etudes Historiques*, ed. Bernard Desjardins et al. (Paris: Droz, 2003), 31–32.
[112] Bonin, *Le monde des banquiers français au XXe siècle*, 43.
[113] Plessis, "The History of Banks in France," 246.
[114] Ibid.
[115] Ibid.
[116] This episode is recounted in more detail in Bernard van Marken and Piet A. Geljon, "La banque de crédit et de dépôt des Pays-Bas (Nederlandsche Credit en Deposito Bank): Aux origines de la Banque de Paris et des Pays-Bas, 1863-1872," *Histoire, économie & société* 32, no. 1 (2013): 19–43.

emerged Bischoffsheim, Goldschmidt & Cie. in Paris, and Bischoffsheim & Goldschmidt in London.[117] The Bambergers were the Bischoffsheims' cousins, and interestingly, Ludwig Bamberger who worked for the BPPB's predecessor in Paris, went on to be one of the two key founders of the Deutsche Bank.[118] The composition of the BPPB's leading group is more prestigious and international than the Crédit Lyonnais'. Thus, the BPPB's experience in engaging in foreign business, specifically sovereign lending, differed markedly, in the sense that no specific information-gathering activities were necessary.

It is clear that in France, the new joint stock banks were not all outsiders. The deposit banks surely were, but the investment banks (banques d'affaires) were in fact created by merchant bankers and could rely on their connections with sovereigns.[119] What often happened was that deposit banks worked in tandem with investment banks. For instance, in the 43 million francs loan to Denmark in 1901, as in the 65 million francs loan to Sweden in 1914, the Crédit Lyonnais was present alongside the BPPB and obtained a similar share of the loan issue.[120]

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[117] Ibid., 25. Bischoffsheim & Goldschmidt in London was the first employer of the famous financier Ernest Cassel.

[118] Gall et al., *The Deutsche Bank, 1870-1995*, 3.

[119] One cannot escape the observation that France seems to have evolved so differently from its neighbour across the Channel. Why did merchant bankers in France regroup in these new banks, whilst in England (and in the United States as well) they continued as independent houses? I have not come across a good explanation for these diverging paths, aside from brief remarks regarding the 'less internationalist and imaginative' character and the lack of openness to international influence of the French Jewish banking community by contrast with those of Germany and the United States. Others point to the inability of the old merchant bankers to answer increasing demands for capital of new companies, a remark which immediately makes one wonder why the English merchant banks did not face the same problem. See Bonin, "The Case of the French Banks," 78; Bonin, *Le monde des banquiers français au XXe siècle*, 41. I do not pretend to solve this problem here, but it merits further inquiry. One difference between the London and Paris markets was the uncontested pre-eminence of the Rothschilds ont the latter. To an extent, some of the new investment banks were created to compete against both the large joint stock banks, as well as against the Parisian Rothschilds.

[120] Samir Saul, "Banking Alliances and International Issues on the Paris Capital Market, 1890-1914," in *London and Paris as International Financial Centres in the Twentieth Century*, ed. Eric Bussière and Youssef Cassis (Oxford: Oxford University Press, 2005), 136. In the same period (1907), but for a Japanese loan of £23 million distributed equally between London and Paris, the Rothschilds had the lion's share in the French issue, with 33.33 per cent, whereas Paribas had 24.68 per cent, and the Crédit Lyonnais, a mere 13.33 per cent. This distribution is intrinsically linked to

The question to ask here is of course, until when could large investment banks count on their well-connected merchant banker founders to know foreign sovereigns? Before the interwar period, the old merchant banks had provided contacts (with their networks of connections), as well as contracts, to their newly created investment banks.[121] In return, the investment banks provided shares of their various transactions to the old banking houses.[122] And yet, even in the years running up to World War I, the chairman of the BPPB, Edouard Noetzlin, was trying to build his own links with English and American merchant bankers, who still reigned supreme in the business of sovereign lending.[123] In France, the decline of the influence of old banks within the new investment banks was a process that really gathered pace in the interwar period and was achieved with the Second World War.[124] In this period and thereafter, they would need to develop new means of knowing sovereigns.

In a perceptive passage which illustrates the existence of a 'continental model' of banking, Youssef Cassis states that before 1914 the Crédit Lyonnais' practices in the business of lending to foreign sovereigns and companies were 'much closer to those of Deutsche Bank than to those of Lloyds Bank or Midland Bank, who were almost entirely absent from a domain still dominated by merchant banks.'[125] In short, the French and German joint stock banks operated in relatively similar ways

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the pre-eminence of merchant banking in London and the fact the London tranche of the loan was going to be underwritten by a syndicate led by N.M. Rothschild & Sons. If we consider the size of the Crédit Lyonnais in relation to the small Rothschild family partnership, this is truly astounding. See Ibid., 132.

[121] Bonin, *Le monde des banquiers français au XXe siècle*, 44–45.

[122] Ibid.

[123] Bonin, "The Case of the French Banks," 78.

[124] Bonin, *Le monde des banquiers français au XXe siècle*, 46.

[125] Youssef Cassis, "Le Crédit Lyonnais et Ses Concurrents Européens," in *Le Crédit Lyonnais, 1863-1986: Etudes Historiques*, ed. Desjardins Bernard et al. (Paris: Droz, 2003), 720.

when lending to foreign sovereigns and companies, and in this they differed from their English counterparts, which were absent from this kind of business. I do not want to dwell too long on the German case as Berlin was much less important than London and New York (and even Paris) over the course of the long nineteenth century, and certainly in the interwar period.[126] In the next few paragraphs, I simply want to outline the similarities of the German joint stock banks with the French ones.

The critical period for the development of joint stock banks was that which followed unification under Prussian domination, from the creation of the German Empire (1871) onwards. Prior to this, small private banking houses were Germany's 'most important financial institutions.'[127] They dominated Germany's 'international banking business well into the 1870s,' mainly by marketing securities for foreign governments and railways.[128] This was a world 'governed by notables,' where key characters were men such as Gerson Bleichröder, banker to Bismarck.[129] It is worth noting that Bleichröder's importance seems to have been overblown, as his place was largely owed to his status as a Rothschild agent. For this reason James de Rothschild (the Paris-based one) once said 'Bleichröder? What is Bleichröder? Bleichröder is the one per cent I let him have.'[130]

German bankers were indeed dependent on foreign capital; they could neither fund German commerce nor industry. For a long time, Germany in fact relied on the English, and to a lesser extent the French, capital market to finance its

[126] Cassis, *Capitals of Capital*, 108–9.
[127] Tilly, "Germany," 301.
[128] Richard Tilly, "International Aspects of the Development of German Banking," in *International Banking 1870-1914*, ed. Rondo Cameron and Valerii I. Bovykin (Oxford: Oxford University Press, 1991), 91–93.
[129] Stern, *Gold and Iron*, xvii.
[130] Ferguson, *The House of Rothschild Vol. 1*, 285.

trade.[131] As we saw in chapter 3 this was originally one of the key areas of business of German merchant bankers in London. As for industry, in the second half of the nineteenth century 'the demand for investment finance grew much faster relative to available savings' than in the United Kingdom, 'owing in part to the desire to imitate British industrialization.'[132] This situation is rather similar to the French one, and may go some way in explaining the alternative development of continental banks.

As small private banks could not meet the exponential increase in demand for capital, they first formed cooperative syndicates, a practice common in Britain and France. However, the 'difficulties experienced in forming and holding such syndicates together motivated private bankers to search for an alternative institutional solution.'[133] This new institutional solution was the joint stock bank.[134] The issue of course was that Prussia and most other German states had hitherto not permitted the creation of joint stock banks, aside from one exception in 1848.[135] Indeed, elites and governments were reticent and thus restricted the introduction of joint stock bank legislation. It was for this reason that new banks adopted legal structures which retained full liability, in the form of the *Kommanditgesellschaft auf Aktien*.[136] This was the legal status of the Darmstädter Bank, but also of the

[131] Gall et al., *The Deutsche Bank, 1870-1995*, 2.
[132] Tilly, "Germany," 300.
[133] Ibid., 302.
[134] This is one of the points made in Gerschenkron, *Economic Backwardness in Historical Perspective*. For a different view see Caroline Fohlin, "The History of Corporate Ownership and Control in Germany," in *A History of Corporate Governance around the World: Family Business Groups to Professional Managers*, ed. Randall K. Morck (Chicago, IL: Chicago University Press, 2005), 223–82.
[135] Tilly, "Germany," 303. The exception which I mentioned earlier was the *A. Schaffhausen'sche Bankverein* from Cologne, which obtained joint stock status during the crisis of 1848 as an emergency measure. The main reasons for the reticence of German governments was fear of inflation, and the angst that this would disturb the fixed exchange rates on which the *Zollverein* was based.
[136] Tilly, "International Aspects of the Development of German Banking," 303.

Berliner Handelsgesellschaft and of the Disconto-Gesellschaft from 1856.[137] Because merchant bankers played a central role in their development, these were often referred to as 'private banks of a higher order.'[138]

During the 1860s, everything changed: the Austro-Prussian War of 1866 led to the dissolution of the German Confederation and to the creation of a Prussian-dominated North German Confederation. A few years after, in 1870/1 the Franco-Prussian War was followed by the creation of the German Empire. With these changes, Berlin became the financial centre of the German Empire. It was at this time, on 11 June 1870 exactly, that the license requirement was dropped for joint stock companies with limited liability (including banks),[139] allowing such banks as the Deutsche Bank in 1870 and the Dresdner bank in 1872, to emerge. Increasingly, it was these new banks that financed trade and managed international capital movements.[140] Contrary to the French case, there was no distinction between investment and deposit banks; all banks engaged in short-term lending and in long-term investment.[141] This was the beginning of German universal banks.[142]

In questions related to international finance, the most important institution in Germany was the Deutsche Bank.[143] Consequently, it is interesting to examine its development to understand if and how the new joint stock banks engaged in international finance. This joint stock bank, as most German joint stock banks, was created by merchant bankers.[144] As in the French case, the top merchant banks

[137] P. Barrett Whale, *Joint Stock Banking in Germany: A Study of the German Creditbanks Before and After the War* (London: Cass & Co. Ltd, 1968), 9.
[138] Tilly, "Germany," 302.
[139] Gall et al., *The Deutsche Bank, 1870-1995*, 3.
[140] Tilly, "Germany," 304.
[141] Tilly, "International Aspects of the Development of German Banking," 92.
[142] On this issue see Manfred Pohl, *Entstehung und Entwicklung des Universalbankensystems: Konzentration und Krise als wichtige Faktoren* (Frankfurt am Main: F. Knapp, 1986). To an extent, over time, the barrier between investment and deposit banks also broke down in France.
[143] Tilly, "International Aspects of the Development of German Banking," 93.
[144] Gall et al., *The Deutsche Bank, 1870-1995*, 6–7.

tended to stay out of these new ventures, whereas the second-tier houses were very implicated in them. In Germany, the names of Rothschild, Bleichröder, and Bethmann are missing from joint stock bank rosters. In the case of the Deutsche Bank, whose founders were keen on teaming up with private bankers that would give their bank 'the necessary *gravitas*,' banks like the respectable Mendelssohn & Co. 'had proved unobtainable.' [145] The two founders of the Deutsche Bank were Adelbert Delbrück and Ludwig Bamberger. Adelbert Delbrück was part of the Berlin merchant bank Delbrück Leo & Co., which was not exactly in the front rank of Berlin banks but had a good reputation.[146] Ludwig Bamberger had worked in his cousins' banks in London, at Bischoffsheim & Goldschmidt, and in Paris, at the Banque de Paris et des Pays-Bas (BPPB), where he specialised in foreign business.[147] Interestingly, and in a manner reminiscent of the usages of merchant banking families, he married Anna Belmont in 1852. She was a cousin of August Belmont's, the Rothschilds' agent in New York.[148] In addition to Delbrück and Bamberger, five other individuals sat on the administrative board, four of them German bankers.[149] In some sense, it looks as though the Deutsche Bank was trying to unify German banking by picking out bankers representing every part of the country, rather than trying to constitute an international network.

German banks, and the Deutsche Bank specifically, were involved in a number of foreign operations. The Baghdad Railway was for example one of the Deutsche Bank's most emblematic international projects of the pre-World War I

[145] Ibid., 6.
[146] Ibid., 3.
[147] Ibid., 5.
[148] Stanley Zucker, *Ludwig Bamberger: German Liberal Political and Social Critic, 1823-1899* (Pittsburgh, PA: University of Pittsburgh Press, 1975), 35.
[149] Gall et al., *The Deutsche Bank, 1870-1995*, 6. The individuals in question were Baron Victor von Magnus, Hermann Zwicker, Adolph vom Rath, Gustav Kutter, and Gustav Müller.

period.[150] In sovereign lending, the old merchant banks such as the Rothschilds, Bleichröders, Behrens, and Warburgs were still crucial and in fact, joint stock banks often had to join them in syndicates to penetrate this area of business.[151] For instance, while the Disconto-Gesellschaft managed to make a foray in Austrian government finances in the 1860s, it nonetheless had to count on the support of the banking houses of Oppenheim, Mendelssohn, and Bleichröder.[152] This was equally true of the Russian loans of the late 1870s and 1880s, in which Mendelssohn and Bleichröder played leading parts.[153] The picture painted here is one in which the joint stock banks were still heavily reliant on merchant bankers that had *not* been involved in their creation. This reveals their nature as outsiders in relation to foreign sovereigns.

Here, as for the French investment banks, the question must be posed as to how long merchant bankers' influence lasted *within* the new joint stock banks. The German case gives us an interesting answer as by 1884, a new Corporation Law was passed, establishing a strong distinction between management and supervisory boards in banks. It allocated great powers to the former and marked the 'separation of capital ownership from company control.'[154] In this way, the merchant bankers that were shareholders were distanced from the management of the bank. Though sons of merchant bankers continued to accede to the managing board in one way or another, they were 'increasingly joined by the descendants of representatives of other professions' (e.g. civil servants, teachers, doctors or priests).[155] This was so true that one of the two first managing directors of the Deutsche Bank, a lawyer

[150] Ibid., 67–77.
[151] Tilly, "International Aspects of the Development of German Banking," 100.
[152] Karl Erich Born, *Geld und Banken im 19. und 20. Jahrhundert* (Stuttgart: Kröner, 1977), 257.
[153] Tilly, "International Aspects of the Development of German Banking," 104.
[154] Gall et al., *The Deutsche Bank, 1870-1995*, 118.
[155] Ibid., 119.

called Georg Siemens (the other managing director was Hermann Wallich), wrote to his family saying

> Though I understand little of American and Indian banking, I nevertheless try to look very erudite, give the occasional shrug, grin from ear to ear […] and secretly refer, when I get home, to my encyclopaedia or dictionary […] when I want to find a word I didn't understand. I've already just about grasped the difference between letter of credit and cash.[156]

Put simply, even those at the top, or perhaps I should say, precisely those at the top, had very little knowledge of banking. However, in an organisation that had 8,475 bank officials (*Beamte*) by 1914, knowledge of banking had become the affair of professional bureaucrats, not solely that of two or three managers (by contrast with merchant banks).[157] This was true for the Deutsche Bank, but also for joint stock banks across the world. Even such a peculiar area of business as sovereign lending would not escape this transformation. In fact from the brief sketch of joint stock banks drawn here, it is possible to hypothesise that the clearest outsiders in sovereign lending, i.e. those with the least means of knowing foreign sovereigns, would be the first to develop alternative methods, that is methods that did not involve merchant bankers and their gentility, for knowing foreign sovereigns. But before I turn to explore what this form of knowledge was and how it developed, I will say a brief word about two types of actors that entered the world of sovereign lending during the interwar period.

III. Newcomers

During the interwar period, merchant bankers in New York became the centrepieces of sovereign lending, the hinge on which the whole international system of long-term finance rested, as the United States of America had become the world's

[156] Ibid., 14.
[157] Ibid., 109.

banker. In a book published in 1919 entitled *The Masters of Capital*, John Moody, founder of the eponymous rating agency, was quite explicit about the individuals to whom the title of his book applied. Indeed, the book begins with a portrait of John Pierpont Morgan opposite the title page, and in the first few pages, Moody identifies some of the great financial houses of Wall Street, i.e. Morgans, Brown Brothers, Kuhns, Loebs, Seligmans, etc.[158] However, the old world was already creaking at the seams as new banks were making their way in sovereign lending, first in Paris and Berlin before World War I, and slowly in New York in the interwar period. In a clear sense, the passing of this old world was deeply intertwined with the decline of Britain.

Just as the old world was waning and new banks rising, another group of actors became involved in sovereign lending. These were neither lenders nor borrowers; they provided information and judgements for the former about the latter. These were credit rating agencies on the one hand, and the League of Nations (specifically its Economic and Financial Organization), on the other. My discussion of these two actors is chronological and thus begins with the rating agencies which date back to the mid-nineteenth century.

In the business of sovereign lending, rating agencies were the outsiders *par excellence*, as they were an entirely American development. Their story begins in the mid-nineteenth century. From the mid-1850s until the early 1900s, Henry V. Poor and John Moody sold manuals compiling financial data from different railroads in the United States (US). In 1880, Poor's Manual of the Railroads of the

[158] John Moody, *The Masters of Capital: A Chronicle of Wall Street* (New Haven: Yale University Press, 1919), iv, 4. Curiously, a recent book uses a variation of this title, applying it precisely to American credit rating agencies (see next footnote).

United States already had over 5000 subscribers and in 1900, Moody first published his Manual of Industrial Statistics, already widening the scope of interest of his business. [159] These were not intended to propose a judgement on the creditworthiness of a business, but rather to allow investors to make informed judgements. However, in 1909 John Moody sold his manual business and created a new one assessing creditworthiness, Moody's Analyses Publishing Co. In 1909, this company was the first to rate securities.[160] Poor's followed suit in 1916.[161] In the meantime, John Knowles Fitch created his own financial statistics company in 1913, although he did not issue any ratings prior to 1924, two years after the Standard Statistics Company. [162] From the 1910s onwards, these companies gradually changed their products by adding assessments of credit worthiness in the form of letter grades to their data compendia. This pre-World War I development of an independent rating business is interesting in that it is particular to the US. No such companies emerged in London for instance.

Their emergence, role and source of authority must be understood as a product of the specific American experience. Two scholars have recently provided a fresh perspective on the emergence of these agencies, arguing that it should not be attributed to the fact that they condensed information in grades and thus reduced transaction costs, or to American judges' particular preference for transparency.[163] Instead, the emergence of rating agencies was due to the specific structure of

[159] Timothy J. Sinclair, *The New Masters of Capital: American Bond Rating Agencies and the Politics of Creditworthiness* (Ithaca, N.Y: Cornell University Press, 2005), 23–24.
[160] Ibid., 24; Lawrence J. White, "The Credit Rating Industry: An Industrial Organization Analysis," in *Ratings, Rating Agencies and the Global Financial System*, ed. Richard M. Levich, Giovanni Majnoni, and Carmen M. Reinhart (New York, NY: Springer, 2002), 8.
[161] Sinclair, *The New Masters of Capital*, 24; White, "The Credit Rating Industry," 8.
[162] Sinclair, *The New Masters of Capital*, 24; White, "The Credit Rating Industry," 8.
[163] Marc Flandreau and Gabriel Geisler Mesevage, "The Separation of Information and Lending and the Rise of Rating Agencies in the United States" (Working Paper 11/2014, Graduate Institute, Geneva, 2014), 4–5.

American banking and to its laws, particularly to the fact that unlike in most European countries, one could not use the price of acceptances as a scale of credit for domestic borrowers, as acceptances were legally hindered from circulating widely and freely across the United States.[164] Thus the information produced by credit rating agencies became extremely valuable. In addition, ratings produced by rating agencies were increasingly used by American courts from the 1900s onwards, and they were eventually enshrined in regulation in the 1930s.[165]

As they were a completely American-centred business, the rating agencies were entirely deprived in terms of contacts with foreign sovereigns. When the United States became the world's banker in the interwar period, rating agencies started producing ratings of sovereign borrowers (more on this in Chapter 6). They had to rely on a different type of knowledge than the kind used by merchant bankers to know sovereigns. Though I will not delve into this before the next chapter, the clue as to what type of knowledge they used can be found in the name that was often used to designate rating agencies during the interwar, namely 'statistical corporations.'[166]

The League of Nations had in common with rating agencies the characteristic of not being an actual sovereign lender and yet, of being involved in sovereign lending. I am naturally not about to recount the whole story of the League's foundation, successes and failures. I will simply focus on the Economic and Financial

[164] Ibid., 18–20, 28.
[165] See respectively Marc Flandreau and Joanna Kinga Slawatyniec, "Understanding Rating Addiction: US Courts and the Origins of Rating Agencies' Regulatory License (1900-1940)" (Working Paper 11/2013, Graduate Institute, Geneva, 2013); Sinclair, *The New Masters of Capital*, 43–44; Richard Sylla, "A Historical Primer on the Business of Credit Rating," in *Ratings, Rating Agencies and the Global Financial System* (Boston: Kluwer Academic Publishers, 2002), 37.
[166] Flandreau and Kinga Slawatyniec, "Understanding Rating Addiction," 2.

Organization (EFO) of the League, a body which was key in the making of so-called 'League loans' during the interwar period. In the words of Patricia Clavin, the League 'was drawn into economics and finance by the exigencies of the post-war slump and hyperinflation in the early 1920.'[167] The EFO was the body through which the League engaged with these issues. While at first the EFO was largely reliant on an informal transnational network of financiers, economists and statisticians, the financial crises in Austria, Hungary, Bulgaria and Greece as well as the Great Depression 'allowed the EFO's resources and ambitions to grow.'[168] The League was a critical professional experience in many respects for people like Jean Monnet, Paul-Henri Spaak and Pietro Stoppani in the context of European integration and for economists of the likes of Meade, Koopmans, Nurkse, Haberler, Tinbergen, Viner, Morgenstern, and Boulding, some of whom would bring their practices from the EFO to the International Monetary Fund later on.[169]

The loans in which the League played a role were a series of nine long-term loans issued between 1923 and 1928, on behalf of six sovereign entities (Austria, Hungary, Greece, Bulgaria, Estonia, and Danzig).[170] The loans were intended to help the reconstruction and stabilisation of new central and eastern European states' finances and currencies. Above all, the League had to convince private creditors to invest in these newly-created and war torn countries. The League was intended to act as a seal of approval. But of course, for this it could not rely on its intimate

[167] Patricia Clavin, *Securing the World Economy: The Reinvention of the League of Nations, 1920-1946* (Oxford: Oxford University Press, 2013), 1.
[168] Ibid., 2; Patricia Clavin and Jens-Wilhelm Wessel, "Transnationalism and the League of Nations: Understanding the Work of Its Economic and Financial Organisation," *Contemporary European History* 14, no. 4 (2005): 465–92; Yann Decorzant, "La Société des Nations et l'apparition d'un nouveau réseau d'expertise économique et financière (1914-1923)," *Critique internationale* 3, no. 52 (2011): 35–50.
[169] Clavin, *Securing the World Economy*, chaps. 8–10.
[170] Juan H. Flores Zendejas and Yann Decorzant, "Going Multilateral? Financial Markets' Access and the League of Nations Loans, 1923–8," *The Economic History Review* 69, no. 2 (2016): 657.

knowledge of sovereigns, as the merchant bankers had done for so long; the League was also, an 'outsider.' Instead it became involved in the elaboration and implementation of economic programmes of recovery.[171] For instance, in the case of Austria, the League named a Commissioner General of Finances, who 'collated and analysed intelligence as to Austria's budgetary and monetary performance.'[172]

What is truly interesting about the League loans, for the purposes of this thesis, is that they illustrate how the old world of sovereign lending coexisted with the new. The League of Nations, though it was producing its own new kind of knowledge about sovereign borrowers, still relied on the old merchant banks, as it knew that the prestigious bankers inspired trust to investors. But over the course of merely five years (from 1923 to 1928), the League became more independent and gained its own reputation on the market. This may be an explanation for why the League was even able to free itself from the necessity of issuing loans through reputable merchant banks (see Table 5.4). It is however noteworthy that none of the large loans were issued by joint stock banks save perhaps for the New York tranche of the Greek 1928 loan.

[171] Louis W. Pauly claims that these programmes were more intrusive than the contemporary IMF ones. See Louis W. Pauly, "International Financial Institutions and National Economic Governance," in *International Financial History in the Twentieth Century: System and Anarchy*, ed. Marc Flandreau, Carl-Ludwig Holtfrerich, and Harold James (Cambridge: Cambridge University Press, 2002), 247.

[172] Clavin, *Securing the World Economy*, 28. Similar commissioners were named in other League assisted sovereign borrowers, for instance Hungary. See Flores Zendejas and Decorzant, "Going Multilateral?," 14.

Table 5.4. *League of Nations loans*

Country	Total Amount (in million £)	Year	Underwriter in New York	Underwriter in London
Austria*	33.78	1923	J. P. Morgan	Bank of England
Hungary	14.38	1924	Speyer	Baring, Rothschild, Schröder
Greece	21.0	1924	Speyer	Hambro
Danzig	1.5	1925	-	British Overseas Bank, Helbert Wagg
Bulgaria	3.3	1926	Speyer, Schröder, Blair	Ottoman Bank, Schröder, Stern
Estonia	1.5	1927	Hallgarten & Co.	Midland Bank, British Foreign & Colonial Bank
Danzig	1.9	1927	-	British Overseas Bank, Helbert Wagg
Greece	7.56	1928	National City	Hambro, Erlanger
Bulgaria	5.53	1928	Speyer	Ottoman Bank, Schröder, Stern, Czechoslovakian syndicate

Source: Juan H. Flores Zendejas and Yann Decorzant, 'Going Multilateral?', *Economic History Review* 69, no. 2 (2016), 661.
*This loan was guaranteed by other states and cannot be counted as real sovereign lending.

With time, the mention 'An international loan issued under the auspices of the League of Nations', absent from the original loan prospectuses, appeared clearly. Speyer (a leading New York merchant banker) claimed in front of the Senate Committee on Finance that the 'League of Nations' moral endorsement of course had a great deal of weight with many people.'[173] The League was developing a reputation in the business of sovereign lending; this reputation was based on a new type of knowledge.[174]

IV. Conclusion

The financial revolution described in this chapter, specifically the shift from family-based banks to joint stock banks, has not received sufficient attention beyond economic and financial history. And yet, it appears to be absolutely central to the making of modern international finance. One of the most striking elements

[173] Flores Zendejas and Decorzant, "Going Multilateral?," 667.
[174] American merchant banks themselves were starting to change. For instance in 1923, as it was negotiating a loan for Colombia, Blair & Co. suggested the Colombian government hire a financial expert from the Department of State. See Emily S. Rosenberg, *Financial Missionaries to the World: The Politics and Culture of Dollar Diplomacy, 1900–1930* (London: Duke University Press, 2003), 159.

described in this chapter is the persisting difficulty and inability for joint stock banks to dislodge merchant banks in the business of sovereign lending. Deep into the interwar period, this remained true, despite the fact that new banks had dwarfed the merchant banks in terms of size.

From the second half of the nineteenth century onwards, new banks appeared in the business of sovereign lending. These new banks were for the most part outsiders in sovereign lending, that is, they had no connections with sovereigns across the world. It was thus relatively difficult for them to know sovereigns and to engage in the business of sovereign lending. This was particularly true in the case of British and American joint stock banks, in the creation of which merchant bankers played no major part. Midland Bank in England or the National City Bank in the United States are key examples. By 1913, they were the largest banks in terms of assets in their respective countries, and yet they were dwarves in the business of sovereign lending. Youssef Cassis' words capture the puzzlement that anyone studying international finance of the late nineteenth and early twentieth century will feel when he says that '[t]he persistence of private family firms at the very heart of the financial centre of the world cannot fail to be surprising.'[175]

The continental situation was slightly different. To an extent, this can be explained because France and Germany industrialised later and in a more precipitated fashion than England. This lag created new forms of banking enterprises in which merchant bankers were sometimes involved. These banks were in some sense the continuation of the 'old' sovereign lending. In France, they were called *banques d'affaires*. A key example is the Banque de Paris et des Pays-Bas (later Paribas), created by a group of bankers belonging to the *haute banque*. It was

[175] Cassis, *City Bankers, 1890-1914*, 43.

easier for this bank to enter the business of sovereign lending than for the American and British joint stock banks. But of course, as new shares were issued, partners died, and inheritances were scattered, merchant banks could not insure their eternal preponderance in these new banks. As their influence waned, notably in the interwar, the joint stock banks they created would have to develop new means of knowing sovereigns. By contrast, the continental banks unrelated to merchant bankers were very rapidly confronted with the problem of how they could 'know' foreign sovereigns. The Crédit Lyonnais, the biggest bank in the world in 1913, is a case in point. A temporary solution consisted in operating alongside merchant banks or well-connected joint stock banks; but this could not last.

Though different in many respects, another set of actors emerged in the interwar period, who were also outsiders in the business of sovereign lending. They did not lend to sovereigns, but provided information to lenders about sovereign borrowers and approved their credit worthiness. These were the credit rating agencies and the League of Nations' EFO. The former are still crucial to contemporary sovereign lending and international finance, while the latter provided many of the professionals who went on to work for the IMF and World Bank. None of them can be said to have had the same international networks as the old merchant bankers; consequently, they also could not and did not rely on gentility to know sovereigns in person. The simple question with which we are left here is, how then, did these new lenders know sovereigns? What form of knowledge did they use?

Chapter 6. Statistics, sovereigns and the new lenders

The question with which we were left in the preceding chapter is what type of knowledge the new actors of sovereign lending used. In this chapter, I will defend the claim that the crucial form of knowledge on which the new sovereign lenders relied was statistics. Nowadays we are accustomed to thinking about statistics as probability. In this sense, statistics have become omnipresent in social sciences, but also in medical research such as epidemiology, and in other natural sciences. This view is so prevalent that the main English-language monographs about the history of statistics generally focus entirely on this aspect.[1] A second meaning of statistics refers to what many would call descriptive statistics, the 'systematic collection and arrangement of numerical facts or data of any kind.'[2] Originally however, the word 'statistics' referred to something much more specific. Indeed, a recent textbook for statistics notes in passing that statistics 'originally meant quantitative information about the government or state.'[3] How can such a practice ever have been novel?

States are routinely compared on the basis of facts, be they quantifiable or not. The use of numbers to represent states, what one might call descriptive statistics, has become ubiquitous, both in international organisations, ministries of foreign affairs, and in scholarly research. But this was not always so. Some may want to argue that describing sovereigns through quantifiable facts is a practice that has always existed, for instance in the form of the numbering of the people of Israel,

[1] For two examples, see Hacking, *The Taming of Chance*; Theodore M. Porter, *The Rise of Statistical Thinking, 1820-1900* (Princeton: Princeton University Press, 1986).
[2] Oxford English Dictionary (OED).
[3] W. Paul Vogt and R. Burke Johnson, *Dictionary of Statistics & Methodology: A Nontechnical Guide for the Social Sciences* (Thousand Oaks, CA: SAGE, 2011), pp. 380–381.

Augustus's balance sheet of the Roman Empire, Charlemagne's inventory of his possessions, or the Doomsday book.[4] However, none of these instances were undertaken in the spirit of modern statistics and to think so is to 'fail to understand the basis of the statistical approach' and the 'nature of the statistical method.'[5] In addition to being one-off events, these instances of 'counting things' were not thought to be representations of sovereigns, which could be used as templates for other sovereigns. My first task in this chapter will therefore be to explain when, where and why people started systematically describing, comparing and ranking sovereigns with numbers. This is however insufficient, as it does not quite tell us how this way of thinking was disseminated, how it ever reached the new sovereign lenders, and with what effect. The second task of this chapter is accordingly to trace the transmission of statistics to the new sovereign lenders, and to illustrate the effects this new form of knowledge had on their engagement with sovereigns.

To achieve these two tasks, the chapter is organised in four parts, followed by a conclusion. The first section deals with the question of when the description of states with quantifiable facts emerged, and outlines the important German roots of this practice. The second section examines the dissemination of statistics in what ought to be called 'the public sphere,' and it highlights the pivotal role of the 1830s for both official statistical bureaux and private publications. The third section focuses on the emergence of the real conveyor belt of statistical thinking for sovereign lenders, namely business schools, and the important place of statistics in their curricula. The fourth section illustrates how the students trained in these institutions brought statistics to the new sovereign lenders. It further shows that one

[4] These examples are taken from M. G. Kendall, 'Where Shall the History of Statistics Begin?', in *Studies in the History of Statistics and Probability*, ed. E. S. Pearson and M. G. Kendall (London: Griffin, 1970), pp. 45–46.
[5] Ibid., 45.

of the outcomes of this process was the creation of sovereign credit ratings. The chapter finally concludes by summing up how the new sovereign lending is defined by statistics. It also points to the fact that the impact of the new sovereign lending was not fully felt before the 1970s, when private international capital flows to sovereigns resumed, after having been curtailed for nearly forty years with the help of capital controls.

I. Statistics as form of knowledge

The practice of representing and comparing sovereigns on the basis of quantifiable facts only began in earnest in the second half of the eighteenth century in Germany. In a passage of his *Italian Journey*, Goethe describes some of the features of the town of Bolzano where he has just arrived. However, he stops abruptly and states that 'in our statistically minded times' all of what he observes must already be 'printed in books.'[6] It is interesting that Goethe chose to use this word, as it had only been coined in the 1740 by a German academic. And yet, as an administrator of the Duchy of Sachsen-Weimar since 1775, it is no surprise that Goethe came in contact with the emerging discipline of *Statistik*, developed precisely for rulers. But what was this discipline?

In 1749, Gottfried Achenwall, a professor of law and history at the University of Göttingen, coined the term *Statistik* to refer to the practice of representing states with series of facts. Particularly important for the development of this discipline were a group of professors engaged in developing cameral sciences, a science of government, at the University of Göttingen.[7] Achenwall had

[6] Johann Wolfgang Von Goethe, *Italian Journey: 1786-1788*, trans. W. H. Auden and Elizabeth Mayer (London: Penguin, 1992), 37–38.
[7] See e.g. Keith Tribe, *Governing Economy: The Reformation of German Economic Discourse, 1750-1840* (Cambridge: Cambridge University Press, 1988); Andre Wakefield, *The Disordered*

himself been a student at various German universities in the years around 1740, and as a result he would have met a widely established tradition of 'statistical' work. Preceding him was a tradition of scholarship initiated in Germany in the lectures of Hermann Conring (1606-1681) – one of the last German polyhistors – entitled *Notitia rerum publicarum*, which were published in the early eighteenth century.[8] Scholars such as Martin Schmeitzel, professor of history and law at the University of Jena and later Halle, continued teaching this subject in the early eighteenth century, as did a string of other academics like Johann Christoph Becmann or Christian Gottfried Hoffmann.[9] Subsequently, his students 'began to give the same courses at other universities' and 'various compendia appeared, usually under a title such as "Collegium Political-statisticum."'[10] The words statistical (not the noun 'statistics') had been used in earlier Italian writings, for instance those of Ghilini and Botero, which were part of a Venetian tradition of collecting 'information more or less systematically on foreign states.'[11]

Police State: German Cameralism as Science and Practice (University of Chicago Press, 2009). Keith Tribe's work is particularly interesting as it explores the de-coupling of household rule and national government (for a brief overview see pp. 21-25), a theme recently explored in international relations in Patricia Owens, *Economy of Force: Counterinsurgency and the Historical Rise of the Social* (Cambridge: Cambridge University Press, 2015).

[8] It appears that Conring came in close contact with members of what Jonathan Israel has termed the 'radical enlightenment' during his stay at the University of Leyden. See Jonathan I. Israel, *Radical Enlightenment: Philosophy and the Making of Modernity 1650-1750* (Oxford: Oxford University Press, 2002).

[9] V. John, "The Term 'Statistics,'" *Journal of the Statistical Society of London* 46, no. 4 (1883): 658; Hans Erich Bödecker, "'Europe'in the Discourse of the Sciences of State in 18th Century Germany," *Cromohs* 8 (2003): 1.

[10] Lazarsfeld, 'Notes on the History of Quantification', p. 291.

[11] Regarding the Venetian tradition, see Johan van der Zande, "Statistik and History in the German Enlightenment," *Journal of the History of Ideas* 71, no. 3 (2010): 412. The Italian historian Girolamo Ghilini uses the word 'statistica' in a monograph from 1589, which was an account of the *civile, politica, statistica, e militare scienza*. Ghilini uses the word as an adjective, whereas Achenwall uses the word as a substantive. See Kendall, "Where Shall the History of Statistics Begin?," 45. The question of the transfer of Italian thought to Germany is not so well explored, but regarding Botero's work, one can turn to Michael Stolleis, "Zur Rezeption von Giovanni Botero in Deutschland," in *Botero e la "ragion di stato". Atti Del Convegno in Memoria Di Luigi Firpo*, ed. A.Enzo Baldini (Florence, 1992), 405–16. Another author who published similar 'statistical' material is Francesco Sansovino, see Harald Westergaard, *Contributions to the History of Statistics* (London: PSKing, 1932), 4; Mohammed Rassem and Justin Stagl, eds., "Expose," in *Statistik Und Staatsbeschreibung in Der Neuzeit: Vornehmlich Im 16.-18. Jahrhundert* (Paderborn: Ferdinand Schoningh, 1980), 13.

The publication of Gottfried Achenwall's (1719-1772) *Abriß der neuen Staatswissenschaft der vornehmen Europäischen Reiche und Republiken* in 1749, the first work of this type in German rather than Latin, helped spread statistics further afield.[12] While Conring was interested in the ends pursued by communities as well as their laws and customs, Achenwall reduced the purview of statistics to 'Land und Leute' (states and peoples).[13] The main goal of statistics after Achenwall was to describe states' material and non-material forces,[14] and to compare them on the basis of (increasingly) quantifiable facts.[15] This definition is key for the simple reason that this is what distinguishes the German statistical tradition from other contemporaneous traditions, most notably the British 'political arithmetic.' The work of John Graunt (1620-1674), William Petty (1623-1687) and Charles Davenant (1656-1714), central to this British tradition, was not primarily concerned with the comparison of states, but rather with taxes, births, deaths, and general questions of demography within specific regions or countries. The Germans who did pick up on this work were not the international lawyers and cameral scientists of the universities Halle, Jena, or Göttingen, but men like Johann Peter Süssmilch (1707-1767),[16] a pastor trained in medicine, just like William Petty.[17] Political arithmetic thus cannot be considered a form of knowledge in the sense of being an enduring way of knowing and representing sovereigns; only *Statistik* fits this

[12] Desrosières, *The Politics of Large Numbers*, p. 19; Lazarsfeld, 'Notes on the History of Quantification', p. 284. The role of Achenwall's student in this development should not be neglected. See Zande, "Statistik and History in the German Enlightenment," 415.
[13] Guillaume Garner, "Statistique, géographie et savoirs sur l'espace en Allemagne (1780-1820)," *Cybergeo: European Journal of Geography*, no. 433 (November 28, 2008): 2; Zande, "Statistik and History in the German Enlightenment," 415.
[14] Klueting, *Die Lehre von der Macht der Staaten*, 40.
[15] Paul F. Lazarsfeld, 'Notes on the History of Quantification in Sociology--Trends, Sources and Problems', *Isis* 52:2 (1961), pp. 292–293.
[16] Hacking, *The Taming of Chance*, 24–25; Zande, "Statistik and History in the German Enlightenment," 418–19.
[17] Ted McCormick, *William Petty and the Ambitions of Political Arithmetic* (Oxford: Oxford University Press, 2009), 40–41.

description. This is why after having introduced the word statistic in English with his Statistical Account of Scotland (1798), John Sinclair explained that

> Many people were at first surprised at my using the words, Statistics and Statistical […] In the course of a very extensive tour, through the northern parts of Europe, which I happened to take in 1786, I found that in Germany they were engaged in a species of political inquiry to which they had given the name of Statistics. By statistical is meant in Germany an inquiry for the purpose of ascertaining the political strength of a country or questions concerning matters of state […].[18]

This was a rather different exercise than the one proposed by political arithmeticians. One of William Petty's treatises, *Political Arithmetic*, did compare England, Holland, Zealand, and France based on a few criteria, as did Charles Davenant's various essays concerned with France and the Dutch.[19] However, if any English development prior to Sinclair resembled German statistics, it was the work of a Scotsman named John Campbell. In *The Present State of Europe*, a publication that enjoyed an international readership, he presents statistical material in the form of numerical tables to assess, compare and rank states' power.[20] It was part of a broader journalistic genre on the 'present state of Europe,' in which a discourse identifying states as 'powers' developed (more on this later).[21]

Though originally the matrices comparing states contained a great deal of 'verbal descriptions,' this changed for the use of figures, which in turn 'favored topics which lent themselves to numerical presentation.'[22] The standard presentation became two-dimensional schemata, which had a horizontal dimension, containing the countries to be compared, and a vertical one, presenting the categories for

[18] John Sinclair cited in Hacking, *The Taming of Chance*, 16.
[19] McCormick, *William Petty and the Ambitions of Political Arithmetic*, 175–85, 300–301.
[20] John Campbell, *The Present State of Europe*, 3rd edition (London: Longman et al., 1752), chap. 2.
[21] On this issue, see Keene, "The Naming of Powers."
[22] Lazarsfeld, "Notes on the History of Quantification," 292.

comparison.[23] Achenwall's student and successor, August Ludwig von Schlözer, called for the abandonment of discursive description, as he largely preferred quantitative data.[24] For him, statistics ought to become a 'measuring discipline' and an 'exact observational science' that did not describe, but 'contained general results as counts' – in other words, 'the less adorned, the truer.[25] This movement took place in the second half of the eighteenth century and in the early nineteenth, but it did not necessarily come exclusively or even primarily from academic statisticians. Historians and geographers indeed started making use of statistics.

The increasing use of statistics by neighbouring disciplines such as geography demonstrates how in some sense, statistics was becoming a technique of investigation, a method of presentation of empirical facts,[26] rather than a science in its own right. Statistics and statisticians found themselves increasingly trying to defend the remit of their discipline, which has led to the erroneous claim that German statistics declined in the early nineteenth century.[27] This is a misrepresentation; though it was declining as a self-standing discipline, statistics was in fact becoming a widespread means of knowing and representing sovereigns. Statistical descriptions of various European sovereigns started appearing in the most curious of places. It was for instance possible to find them in the Almanac de Gotha, a German yearly almanac ranking European royalty and high nobility that enjoyed a broad audience from 1764 to the late nineteenth century. In the very late

[23] Ibid.
[24] Hans Erich Bödecker, "On the Origins of the 'Statistical Gaze': Modes of Perception, Forms of Knowledge and Ways of Writing in the Early Social Sciences," in *Little Tools of Knowledge: Historical Essays on Academic and Bureaucratic Practices*, ed. Peter Becker and William Clark (Ann Arbor, MI: University of Michigan Press, 2001), 186.
[25] Ibid., 186–87.
[26] On this theme, see Michael Friendly, "The Golden Age of Statistical Graphics," *Statistical Science* 23, no. 4 (2008): 502–35.
[27] Garner, "Statistique, géographie et savoirs sur l'espace en Allemagne (1780-1820)," 3–9; Bödecker, "On the Origins of the 'Statistical Gaze,'" 176, 181.

eighteenth century, statistical representations of sovereigns can be found in a great deal of German academic scholarship, of which J.C. Gatterer and A. L. Crome's works are good examples.[28]

This quantitative turn to describe and know states was not to everyone's taste. Arnold Heeren, successor and erstwhile colleague of the famous statistican August Ludwig von Schlözer, once declared that statisticians over-relying on numbers were 'table hacks.'[29] A later commentator in the pages of the widely read *Göttingische gelehrte Anzeigen* (incidentally founded by Schlözer) from as late as 1807 stated in a refreshingly blunt manner:

> These poor fools are spreading the crazy idea that one can understand the power of a state simply by a superficial knowledge of its population, its national income, and the number of animals nibbling in its fields. […] The machinations in which these criminal statistician-politicians indulge in their efforts to express everything through figures… are ridiculous and contemptible beyond all words.[30]

This statement, hardly a ringing endorsement of the practice, illustrates the resistance with which the description of sovereigns through quantifiable facts was met and the novelty it constituted, more than half a century after it had timidly appeared. And yet, the transition from 'statistics without counting' to the table-statistics, oriented 'largely on the methodological criteria of measurability' was already well under way.[31] This meant for instance that traditional topics such as the history of a state which were treated by the first statisticians, such as Achenwall, had to be 'excluded from the sphere of interest' of *Statistik*.[32] It is therefore rather

[28] John, "The Term 'Statistics,'" 670. On Crome's work, see Sybilla Nikolow, "A. F. W. Crome's Measurements of the 'Strength of the State': Statistical Representations in Central Europe around 1800," *History of Political Economy* 33, no. 5 (2001): 23–56.
[29] Zande, "Statistik and History in the German Enlightenment," 420. On the role of A. H. L. Heeren in developing a historical argument about the existence of an 'international system' based on sovereign states, see Keene, *Beyond the Anarchical Society*, chap. 1.
[30] Alain Desrosières, *The Politics of Large Numbers: A History of Statistical Reasoning*, trans. Camille Naish (Cambridge, MA: Harvard University Press, 2002), pp. 21–22.
[31] Bödecker, "On the Origins of the 'Statistical Gaze,'" 179.
[32] Ibid.

unsurprising that a historian like A. H. L. Heeren would have been annoyed by this turn of events.

Earlier, I mentioned the fact that the 'interstate comparison,' as noted by Lazarsfeld, distinguished German 'Statistik' from other developments in Europe, such as British 'political arithmetic.' [33] This was intrinsically linked to two key developments. First, there was the political context of the Holy Roman Empire and of its constituent entities. Within this curious polity, the emperor's power was already largely diminished by the end of the Thirty Year's War, and even more so by the eighteenth century. While disputes between states themselves and between states and the Emperor had previously been dealt with through the juridical framework of the Empire, the declining power of the emperor could hardly continue to impose this old method.[34] After Conring's death in 1681, the rivalry between the Elector of Brandenburg and Elector of Hanover gathered pace, as the former became King of Prussia, and the latter obtained the Crown of England. The old framework became even more difficult to uphold with the rise of a powerful Prussia in the eighteenth century,[35] which led to an intense rivalry with Austria. Lawyers did try to maintain the old legalistic framework. In fact, Achenwall consciously omitted Prussia and Austria in his statistical work based on an agreement with his colleague J. S. Pütter who taught German Imperial law. For them, Austria and Prussia still had to be dealt with and understood within the context of the Empire.[36]

[33] Lazarsfeld, 'Notes on the History of Quantification', p. 291.
[34] Grete Klingenstein, 'Book Review of "Die Lehre von Der Macht Der Staaten: Das Aussenpolitische Machtproblem in Der 'Politischen Wissenschaft' Und in Der Praktischen Politik Im 18. Jahrhundert", by Harm Klueting', *The English Historical Review* 103:406 (1988), p. 136.
[35] H. M. Scott, *The Emergence of the Eastern Powers, 1756-1775* (Cambridge: Cambridge University Press, 2001), 1–10.
[36] Zande, "Statistik and History in the German Enlightenment," 416–17.

The second important development linked to the emergence of a 'statistics' concerned with interstate comparison was a new type of discourse which represented international actors as *powers* that were part of an *international system*. The discourse on powers and on their gradation (i.e. great, middle or small) developed rapidly and by the mid-eighteenth century the use of this vocabulary was 'commonplace.'[37] It was only in the latter part of the eighteenth century that the discourse on powers merged with statistics, such that gradations of power were supported by statistical analysis, for instance in the work of Bielfeld.[38] It is thus not a surprise that statisticians made important contributions to debates about questions of power and balance of power, for instance the Viennese cameralist J.H.G. von Justi in his famous *Die Chimäre des Gleichgewichts von Europa* (1758). The idea that these European powers formed an international system, the basis of which was the freedom of each state, was most famously developed by an historian based at the University of Göttingen, Arnold Heeren, in his *Handbuch der Geschichte des europäischen Staatensystems und seiner Colonien* (1809).[39] Heeren developed this argument in reaction to the French Wars and Napoleon's bid for supremacy in Europe, so as to assert that Europe had always been based on a system of free independent states. Thus, both the political context of the Holy Roman Empire and the intellectual environment in Europe were favourable to the development of statistical ideas. As an aside, it is interesting to remark the central role of the

[37] Edward Keene, 'The Naming of Powers', *Cooperation and Conflict* 48:2 (2013), p. 270; Klueting, *Die Lehre von der Macht der Staaten*.
[38] Keene, "The Naming of Powers," 274–75.
[39] From this perspective, it is also unsurprising that what some see as the ancestor of German statistics developed in the northern Italian cities of the Renaissance. The works of Girolamo Ghilini, Francesco Sansovino, Giovanni Botero all appeared in an international context that bore some resemblance to the one of late seventeenth and early eighteenth century minor German states. See Edward Keene, 'International Hierarchy and the Origins of the Modern Practice of Intervention', *Review of International Studies* 39:5 (2013): p. 1087; Kendall, 'Where Shall the History of Statistics Begin?', p. 45; Harald Westergaard, *Contributions to the History of Statistics* (London: PSKing, 1932), p. 4.

University of Göttingen in the emergence of a recognisably realist discourse on international relations, organised around the notions of powers, balance of power, and international system. In the same way as we like to speak of a Chicago School in twentieth century economics, or an English School in twentieth century international relations, there was a 'Göttingen School of international relations' in the second half of the eighteenth and first half of the nineteenth century.

Statistics was not only an obscure academic undertaking, but it was eminently useful for civil servants. Indeed, the University of Göttingen, where Gottfried Achenwall worked, had been created in 1737 in part to answer the need for properly qualified statesmen. As Martti Koksenniemi puts it, Achenwall's work was significant because of its ability to combine 'a vocabulary of philosophical politics (i.e. natural law) with pragmatic studies on the government of modern states.'[40] This was part of a broader movement in the development of what has been termed 'cameral sciences' or 'sciences of the state,' for which professional chairs were purposefully created in various protestant German universities, such as the one at the University of Halle in 1727.[41] The Faculty of Law in which Achenwall worked was a key tool for dispensing education to future statesmen and administrators,[42] attracting such promising ones as the young Prince von Metternich, who was taught by a colleague of Achenwall's, Johann Stephan Pütter.[43] Statistics was indeed a 'political discipline' meant to prepare 'future practical statesmen for their duties'

[40] Martti Koskenniemi, 'Into Positivism: Georg Friedrich von Martens (1756–1821) and Modern International Law', *Constellations* 15:2 (2008), p. 93.
[41] Keith Tribe, *Governing Economy: The Reformation of German Economic Discourse, 1750-1840* (Cambridge: Cambridge University Press, 1988), p. 42. In this book, Tribe explains that cameral sciences were absolutely key in adapting the discourse of natural law to practical issues of government. It should be noted that it was the Protestant universities who were forerunners in this movement, as the catholic universities were in Tribe's words, 'moribund' (p.47).
[42] Klueting, *Die Lehre von der Macht der Staaten*, p. 40.
[43] Koskenniemi, "Into Positivism," 193.

and impart in them the knowledge of states' constitution and the level of their strengths and weaknesses.[44]

More minor figures trained in statistics in the eighteenth century were responsible for the great expansion of the role this discipline played in politics in the following century. For instance, Baron von Stein, the founder of the Prussian statistical bureau, studied in Göttingen and then became State Minister and head of the Departments of excises, customs, manufactures, and commerce.[45] The head of the Prussian bureau from 1808 onwards, Johann Gottfried Hoffmann, came to play *the* central role in the statistical commission – the first of its kind – of the Congress of Vienna led by G. F. von Martens (another Göttingen alumnus) established after the defeat of imperial France.[46] The commission was created in part to appease the disagreements between Metternich and Hardenberg, respectively Austrian and Prussian Chancellors, about the characteristics (e.g. population) of the territories lost by Napoleon. The commission's work, unheard of in previous peace settlements, was key in the shift from a qualitative evaluation of state power to a quantitative one, and in the 'unrestricted mathematical application of the balance principle.'[47] Though lawyers, intellectuals and journalists had been moving in this direction for some time, the Congress of Vienna really appears as a turning point in terms of statesmen's practice. The next question to which I now turn is how statistics ever reached a broader public.

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[44] Klueting, *Die Lehre von der Macht der Staaten*, p. 56.
[45] Ibid., 295–98.
[46] Johann Ludwig Klüber, *Acten Des Wiener Congresses, in Den Jahren 1814 Und 1815* (J.J. Palm und E. Enke, 1832), pp. 17–23; Klueting, *Die Lehre von der Macht der Staaten*, pp. 298–300. Interestingly, Pütter also taught law to G.F. von Martens, who would go on to be one of the most important figures in the development of modern international law (see Koskenniemi, "Into Positivism," 193).
[47] Heinz Duchhardt, *Gleichgewicht der Kräfte, Convenance, europäisches Konzert : Friedenskongresse u. Friedensschlüsse vom Zeitalter Ludwigs XIV. bis zum Wiener Kongress* (Darmstadt: Wissenschaftliche Buchgesellschaft, 1976), p. 174; Klueting, *Die Lehre von der Macht der Staaten*, pp. 299–301.

II. The dissemination of statistics

Because they were so tied with the exercise of power, statistics remained rather secretive during the eighteenth century. For this reason, professors often 'had to defend themselves from charges of presumptuousness and unauthorized diffusion of state secrets.'[48] As Ian Hacking puts it, 'if there is a contrast in point of official statistics between the eighteenth and nineteenth centuries, it is that the former feared to reveal while the latter loved to publish.'[49] A good illustration of the reluctance to publicise data about the state is Austria, which only started publishing its annual accounts in 1860.[50] However, things were already changing in the early nineteenth century, not least because of the arguments of statisticians themselves.

Many thought that statistics should be a matter of state administration, because as Schlözer claimed, 'only the state, and not the private person can create the most important statistical data.'[51] This view, which found many supporters, led to the rise of statistical bureaus across Europe (more on this below). It was also conveniently suited to the enlightened-absolutist programs of modernisation of many princes. Though probably self-interested, Schlözer's stance was shared by statisticians who sought explicit participation as 'advising experts in the business of politics.'[52] There was however a more subversive dimension to this. First, this movement led to an increasing professionalization of high civil service and therefore, to a move towards more bureaucratic forms of authority. Second, through their publications, many academics sought to make statistics public, that is, to bring

[48] Bödecker, "On the Origins of the 'Statistical Gaze,'" 189.
[49] Ian Hacking, *The Taming of Chance* (Cambridge: Cambridge University Press, 1990), p. 20. See also the remarks in Michel Armatte, "Une discipline dans tous ses états: La statistique à travers ses traités (1800–1914)," *Revue de synthèse* 112, no. 2 (April 1991): 168.
[50] Nico Randeraad, *States and Statistics in the Nineteenth Century: Europe by Numbers* (Manchester: Manchester University Press, 2010), p. 72.
[51] Bödecker, "On the Origins of the 'Statistical Gaze,'" 190.
[52] Ibid.

them into the emerging bourgeois pubic sphere (*bürgerliche Öffentlichkeit*).[53] Hence, the dissemination of statistics is bound up with the emergence of a public sphere, not so much in salons and cafes, but more importantly in the growth of publications such as journals and manuals. The intention of this move to publicise, enabled by the University of Gottingen's freedom from censorship, was the emancipation of the citizenry, best expressed through Schlözer's belief that 'despotisms became free polities through publicity.'[54] A number of political-statistical journals were created in the late eighteenth century, the most famous in Germany being the *Staatsanzeigen*, in existence from 1782 to 1795, after which they were prohibited.[55] These private efforts went some way toward making statistics public, but things only really changed in the early nineteenth century, with the rise of statistical bureaux. These did not produce statistics in the sense of cross-country comparisons, as the initial German definition would have had it, but national statistics.

The years around 1830 were the real *Sattelzeit* in terms of the development of statistical bureaux and associations[56] – see Table 6.1 for a summary. A French statistical bureau opened in 1800, the Bureau de la Statistique Générale, but it was closed in 1812 by Napoleon.[57] It reopened in 1833 as Statistique Générale de

[53] Klueting, *Die Lehre von der Macht der Staaten*, 63–65. To state the obvious, for statistics to become public, some kind of 'public sphere' had to exist. Public spheres slowly developed in Europe from the early modern period onwards notably through journals and periodicals of all sorts. But as scholars such as Jürgen Habermas and Timothy Blanning have shown, it was in the eighteenth century that the public sphere was really established, notably because of the sheer number of pamphlets and publications of all sorts that emerged. See T. C. W. Blanning, *The Culture of Power and the Power of Culture: Old Regime Europe, 1660-1789* (Oxford: Oxford University Press, 2002); Jürgen Habermas, *The Structural Transformation of the Public Sphere: An Inquiry into a Category of Bourgeois Society* (Cambridge: Polity, 1989).
[54] Klueting, *Die Lehre von der Macht der Staaten*, 66.
[55] Helmut D. Schmidt, "Schlozer on Historiography," *History and Theory* 18, no. 1 (1979): 38.
[56] Westergaard, *Contributions to the History of Statistics*, p. 113.
[57] Ibid., 114–15.

France,[58] and in the meantime, a number of private statistical writings had appeared, notably the famous *Recherches statistiques sur la ville de Paris et le department de la Seine* from 1821. Prussia, following its defeat against Napoleon, reorganised the state and built a statistical service opened in 1805, which remained in place until 1934.[59] From 1805 to 1806, it was headed by Leopold Krug who had been trained at the University of Halle in statistics, before Johann Gottfried Hoffmann took over in 1808. The foundation of the *Zollverein* at the initiation of Prussia in 1833, also required accurate official statistics, particularly about the population, and so 'triennial enumerations were prescribed for the whole territory of the union.'[60] This was one of the developments which led to the establishment of statistical bureaus in minor German states because '[e]xcise taxes for trade between states were apportioned according to the number of people in each state.'[61] Saxony as well as Mecklenburg-Schwerin opened their statistical offices in 1851, Oldenburg in 1855, Hamburg in 1866, Bremen in 1867, and Lübeck in 1871.[62] The revolution of 1848 and German industrialisation were additional triggers for this movement.[63] The creation of the German Empire after 1871 was followed up with the establishment of an imperial statistical bureau, the Kaiserliches Statistisches Amt in 1872.[64] Austria only opened a statistical office in 1829,[65] conducted its first census in 1857 and established a central statistical commission in 1863. The towering figure in Austrian statistics was Carl von Czoernig, who had studied in

[58] Desrosières, *The Politics of Large Numbers*, p. 151.
[59] Ibid., p. 179.
[60] Hacking, *The Taming of Chance*, p. 34; Westergaard, *Contributions to the History of Statistics*, p. 173.
[61] Hacking, *The Taming of Chance*, p. 34.
[62] Westergaard, *Contributions to the History of Statistics*, p. 173.
[63] Theodore M. Porter, *The Rise of Statistical Thinking, 1820-1900* (Princeton: Princeton University Press, 1986), pp. 38–39.
[64] Randeraad, *States and Statistics in the Nineteenth Century*, p. 112.
[65] Klueting, *Die Lehre von der Macht der Staaten*, p. 297.

Vienna,[66] a university that bore the imprint of the prominent cameralists, Justi and Sonnenfels. England and Wales, by contrast, developed their statistical offices in the 1830s, by opening the Board of Trade's bureau of statistics in 1832, and the General Register Office in 1836.[67] It should however be noted that the first British census had taken place in 1801.[68] Finally, the United States, while it had been conducting censuses for political reasons pertaining to the congressional weight of each state since 1800, only created a permanent census bureau in 1902.[69]

These developments in official statistics were emulated by non-governmental actors. In France, the *Société statistique* was created in 1803, but closed in 1804. In 1829, a statistical society called *Société Française de Statistique Universelle* appeared and in 1860, the *Société de Statistique de Paris* was created.[70] The latter of these two had been explicitly founded to assess the merits of free trade after the signature of the Cobden-Chevalier Treaty.[71] A journal of statistics, the *Annales de Statistique*, was published as early as 1802. In Britain, the famous statisticians Quételet – a Belgian – and Malthus, created a statistical section of the British Association for the Advancement of Science, and in 1834 the Statistical Society of London (later Royal Statistical Society in 1887) was founded.[72] In Germany, it was the famous *Verein für Sozialpolitik*, created in 1872, which played a role similar to

[66] Randeraad, *States and Statistics in the Nineteenth Century*, 77.
[67] Desrosières, *The Politics of Large Numbers*, p. 167.
[68] Westergaard, *Contributions to the History of Statistics*, p. 119.
[69] Desrosières, *The Politics of Large Numbers*, p. 196; Westergaard, *Contributions to the History of Statistics*, p. 120.
[70] Desrosières, *The Politics of Large Numbers*, p. 154; Zheng Kang, 'La société de statistique de Paris au XIXe siècle: Un lieu de savoir social', *Les Cahiers du Centre de Recherches Historiques. Archives*, 9 (1992), (http://ccrh.revues.org/2808), accessed 28 July 2015.
[71] Avner Bar-Hen, 'Les 150 Ans de La Société de Statistique de Paris', *CNRS-Images Des Mathématiques*, (2010), (http://images.math.cnrs.fr/Les-150-ans-de-la-Societe-de.html#nh3), accessed 29 July 2015.
[72] Desrosières, *The Politics of Large Numbers*, p. 173; Porter, *The Rise of Statistical Thinking, 1820-1900*, p. 31.

the London Statistical Society's.[73] Finally, the first International Statistical Congress was held in Brussels in 1853, followed by another eight in different locations over the next 23 years.[74]

Table 6.1. Summary of the creation of statistical institutions

1800-1830	Bureau de la Statistique Générale *closed 1812*
	Prussian statistical service
	Société de Statistiques *closed 1806*
	Société Française de Statistique Universelle
	Austrian Statistical Bureau
1830-1860	Statistique Générale de France
	Board of Trade's bureau of statistics
	General Register Office
	Société Statistique de Paris
	Statistical Society of London
	First International Statistical Congress (Brussels)
	German Statistical Offices: Bayern, Saxony and Mecklenburg-Schwerin.
1860-1890	Verein für Sozialpolitik
	Kaiserliches Statistisches Amt
	German Statistical Offices: Oldenburg, Hamburg, Bremen, and Lübeck.
	Central Statistical Commission (Austria)

Sources: see footnote.[75]

Most of these institutions and associations were still engaging in a type of statistics that was 'divorced from the developments in mathematical theory of probability.'[76] For this reason, in 1838 it was still possible for the London Statistical Society to claim that

> [t]he Science of Statistics differs from Political Economy, because, although it has the same end in view, it does not discuss causes nor reason upon probable effects; it seeks only to correct, arrange and compare, the class of facts which alone can form the basis of correct conclusions with respect to social and political government […].[77]

[73] Desrosières, *The Politics of Large Numbers*, p. 185.
[74] Westergaard, *Contributions to the History of Statistics*, p. 172.
[75] Desrosières, *The Politics of Large Numbers*, 151, 167, 179, 196; Hacking, *The Taming of Chance*, 34; Klueting, *Die Lehre von der Macht der Staaten*, 297; Porter, *The Rise of Statistical Thinking, 1820-1900*, 38–39; Randeraad, *States and Statistics in the Nineteenth Century*, 112; Westergaard, *Contributions to the History of Statistics*, 114–15, 119–20, 173.
[76] Donald A MacKenzie, *Statistics in Britain, 1865-1930: The Social Construction of Scientific Knowledge* (Edinburgh: Edinburgh University Press, 1981), p. 8.
[77] Porter, *The Rise of Statistical Thinking, 1820-1900*, pp. 35–36.

However, it was not only official bureaus and learned societies that produced and published statistics. Soon, new periodicals started publishing a substantial amount of the data produced by these bureaus and private organisations. By comparison with statistical bureaus, they were very interested in cross-country comparisons. One of the most important ones was the *Statesman's Yearbook* published from 1864, though there were also many more specialised outlets. In 1837 in London, Charles Fenn published a *Compendium of the English and Foreign Funds*, the endless title of which includes a reference to 'debts and revenues of foreign states.'[78] It underwent sixteen editions between 1837 and the end of the nineteenth century. From its ninth edition (1867) onwards, the editor of *Fenn's Compendium* was Robert Lucas Nash, a man who had started a career at *The Economist* in 1864, a journal created by Walter Bagehot in the 1840s.[79] Interestingly, during the latter part of Nash's career at *The Economist* and until a few months before his resignation, R. H. Inglis Palgrave had been the editor of the journal.[80] The 1850s witnessed the foundation of a Brussels-based francophone equivalent named *La Semaine Financière,* as well as the French *Manuel des Fonds Publics et des Sociétés par Action*, created by Alphonse Courtois.[81] *L'Economiste Français* was

[78] Charles Fenn, *A Compendium of the English and Foreign Funds, and the Principal Joint Stock Companies, Forming an Epitome of the Various Objects of Investment Negotiable in London; with Some Account of the Internal Debt and Revenues of the Foreign States and Tables for Calculating the Value of Different Stocks, Etc.* (London: Sherwood, Gilbert, and Piper, 1837).
[79] Andrew Odlyzko, 'The Collapse of the Railway Mania, the Development of Capital Markets, and Robert Lucas Nash, a Forgotten Pioneer of Accounting and Financial Analysis' (2011), pp. 42–43, (http://papers.ssrn.com/abstract=1625738), accessed 7 September 2015.
[80] Ibid. Nash published widely on financial matters. He based one of his most famous books, *A Short Inquiry into the Profitable Nature of our Investments*, on an article on foreign investments by Hyde Clarke (secretary of the Corporation of Foreign Bondholders) in the *Journal of the Statistical Society of London.* It is however noteworthy that there was no information about sovereigns' finances, but only data about bond prices and yields. See Hyde Clarke, 'On the Debts of Sovereign and Quasi-Sovereign States, Owing by Foreign Countries', *Journal of the Statistical Society of London* 41:2 (1878), pp. 299–347; Robert Lucas Nash, *A Short Inquiry into the Profitable Nature of Our Investments: With a Record of Five Hundred of Our Most Important Public Securities during the Ten Years 1870 to 1880* (London: Effingham Wilson, 1880), p. 2.
[81] Flandreau, "Caveat Emptor," 5.

first published in 1862 by Paul Leroy-Beaulieu, and a year later, *The Economist* started producing a monthly supplement called the *Investor's Monthly Manual*.[82] One financial historian speculates that Robert Lucas Nash (again) edited this supplement.[83] Modelled on *The Economist*, as was *The Statist* (1878), *The Commercial and Financial Chronicle* was published from 1865 onwards by William Buck Dana in New York.[84] Later publications included Mulhall's *Dictionary of Statistics*, undergoing five editions between 1886 and the First World War. This last publication, like Fenn's compendium, was not updated monthly or even yearly, but only every few years.

The period from the 1830s onwards therefore saw a huge increase in the publication of statistics, through official bureaus and scientific associations, but also in periodicals of all sorts. However, the quality of the numbers was still very much in doubt. By the end of the nineteenth century, there were estimates of national wealth for only ten countries, and by 1929, for twenty.[85] For some countries, these estimates were intermittent. For instance, in the second half of the nineteenth century, Russia, Germany, and The Netherlands only had national wealth estimates from the late eighteenth and early nineteenth century.[86] In any case, the point here is that the 'statistical gaze,' a new way of thinking about sovereigns and of knowing them, would soon penetrate deeper into society by reaching higher education. It

[82] Ibid.
[83] Odlyzko, "The Collapse of the Railway Mania," 42–43.
[84] Ruth Dudley Edwards, *The Pursuit of reason: "The Economist" 1843-1993* (London: Hamish Hamilton, 1993), 280.
[85] Vanoli, *A History of National Accounting*, 11. On this issue, see also the classic Paul Studenski, *The Income of Nations* (New York, NY: New York University Press, 1958).
[86] Vanoli, *A History of National Accounting*, 7.

would be taught in universities, and more importantly for sovereign lenders, in newly created business schools.

III. Business education

Prior to the end of the nineteenth century, there was no advanced commercial education. Those who became merchant bankers in Britain for instance, learnt their trade in the family bank and abroad, with their foreign partners. Some did attend Oxford or Cambridge, but this type of education 'was not seen as appropriate preparation for a youth intended for business life, any more than it was seen as a useful preliminary to the army.'[87] Though bankers like the Rothschilds did go to the ancient universities to study moral sciences (of which political economy was a component) it was, as we saw in chapter 4, certainly not for the specialised business training these universities offered.[88]

In the last decades of the nineteenth century, the first business schools were founded, and all of them taught courses about statistics. In France, the boom happened from the 1870s onwards. The *Ecole Supérieure de Commerce* was created in 1830, but it only acquired importance from 1869 onwards, when it was taken over by the Chamber of Commerce of Paris. At that point, about 100 to 150 students attended the school and in their third year, they could study banking and financial

[87] M. G Brock and M. C Curthoys, eds., *The History of the University of Oxford: Nineteenth-Century Oxford. Part 1 (volume VI)* (Oxford: Clarendon Press, 1997), p. 499.
[88] In Britain and France, manuals of banking and accounting did exist, for instance James Gilbart's *Practical Treatise* (1827) and John Dalton's *Banker's Clerk* (1843) but these were nothing close to 'formal arrangements for tuition.' See Edwin Green, *Debtors to Their Profession: A History of the Institute of Bankers 1879-1979* (London: Methuen & Co Ltd, 1979), p. 5. On early French accounting manuals see Yann Lemarchand, '"A la conquête de la science des comptes." Variations autour de quelques manuels de comptabilité des XVIIe et XVIIIe siècles', in *Ecrire, Compter, Mesurer /2 : Vers une histoire des rationalités pratiques*, ed. Natacha Coquery, François Menant, and Florence Weber (Paris: Editions Rue d'Ulm, 2013), pp. 34–65.

operations relating to: interests, annuities, types of bonds, calculation of probability and its financial and commercial applications, life insurance, state borrowing, treasury bonds, as well as the links between the state and railway undertakings.[89] They also studied commerce and political economy, which comprised a section on statistics. The *Ecole libre de sciences politiques* (later Sciences Po) was created in 1871 and the *Ecole des Hautes Etudes Commerciales* (later HEC) in 1881.[90] Both of these schools dispensed commercial training. At the *Ecole libre*, one could study the financial history of Europe, specifically relating to state budgets, financial organisation, debts, taxes, borrowing and credit.[91] In the 1870s, the school introduced a course about statistics, along with a course on public accounts. In the 1880s, a whole section (out of two) was dedicated to economy and finance, the other one being the section *générale.*[92] By the end of the decade, there was an endowed chair in 'Statistique et commerce extérieur' and one in 'Finance,' a novelty followed by two new courses, one of which was about French and foreign finance and the other which concerned 'Statistics, external commerce and economic geography.' The former course dealt with issues of public credit, loans and debt, repayment, conversion, and floating debt, while the latter examined the objects and processes of statistics, demography, agricultural/industrial/commercial statistics of France compared to that of other states, populations and professions, mines, great industries, canals, railways, telegraph, and ports, but also various colonial systems

[89] Eugène Léautey, *L'enseignement commercial et les écoles de commerce en France et dans le monde entier* (Paris: Guillaumin et Cie., 1886), 9–10, 14–41.
[90] The Ecole libre was of course not only dedicated to business, but also in large part to government. This does not pose a problem for my argument as we saw that statistics were originally developed out of foreign policy concerns. That it would be transmitted through a school in part dedicated to government thus makes a great deal of sense.
[91] École Libre des Sciences Politiques, *L'École Libre Des Sciences Politiques, 1871-1889.* (Paris: Typographies Georges Chamerot, 1889), pp. 13–14.
[92] Ibid., p. 66.

in the world.[93] All this is rather unsurprising as Paul-Leroy-Beaulieu, a famous economist whose main work was a book entitled *Traité sur la Science des Finances* (1877), directed the school for a number of years. By the end of the 1880s the school had about 400 students. The *Ecole des Hautes Etudes Commerciales* (HEC) offered similar classes and because of this, 'banking was the one activity in which HEC graduates had been able to assert themselves, thanks to the originality of their training.'[94] In 1905, the School even dedicated one of its three sections to 'Commerce et banque.'[95]

In Britain, similar developments took place slightly later. The author of a manual on commercial education from the 1880s notes in a puzzled tone that there are 'no proper commercial schools in England, Scotland, and Ireland' and that 'in sum, the most commercial nation on the globe possesses a poorly developed commercial education.'[96] To my knowledge, the only form of financial education was the 'Gilbart Lectures on Banking' dispensed by the internationally famous statistician Leone Levi at King's College from 1872 onwards.[97] His lectures were funded by the will of James Gilbart (erstwhile manager of the London & Westminster Bank) who had written a handbook on banking practice earlier in the century. Interestingly, Levi had also published estimates of the national incomes of four countries in 1860 (UK, France, Russia and Austria), at a time when there were still

[93] Ibid., 122–23.
[94] Marc Meuleau, 'From Inheritors to Managers: The Ecole Des Hautes Etudes Commerciales and Business Firms', in *Management and Business in Britain and France: The Age of the Corporate Economy*, ed. Youssef Cassis, François Crouzet, and Terry Gourvish (Oxford: Oxford University Press, 1995), pp. 134–135.
[95] Ibid., p. 137.
[96] Léautey, *L'enseignement commercial et les écoles de commerce en France et dans le monde entier*, 539–40.
[97] Green, *Debtors to Their Profession: A History of the Institute of Bankers 1879-1979*, 34–36.

no reliable sources.[98] One response to the lack of commercial education was simply to recruit French and German men. Interestingly, the absence of good commercial education led some British banks, for instance Midland Bank, to recruit abroad.[99] In the mid-1900s, Midland Bank, the largest British bank along with Lloyds in terms of deposits, decided to undertake foreign operations. Because it did not have competent staff among its 5,000 employees to engage in this business, chairman Sir Edward Holden 'urged British universities to offer courses in international finance, pointing out in 1905 that the American banks were recruiting from the American and German universities.'[100] The words of Midland's chairman are indicative of the lack of proper training for banking in British higher education, specifically pertaining to foreign banking, and it illustrates their willingness to hire employees with advanced financial training. One of the institutional responses to the lack of education for businessmen was the Institute of Bankers, established in 1879.[101] It offered training to people who were already bank employees. As one might expect, the directing Committee and Council were mostly populated by men from joint stock banks, either based in Britain or in the Empire, and a few small private banks that were quickly absorbed by joint stock banks at the close of the nineteenth century. No merchant banks seem to have taken part in this endeavour.[102] However, the Institute's educational program was for clerks rather than for high-ranking managers. The most telling feature of this low level of training is the fact that in the early 1900s, the Institute replaced courses on commercial geography and algebra

[98] Studenski, *The Income of Nations*, 140.
[99] Holmes and Cooper, *Midland*, 134.
[100] Ibid., 133.
[101] On the Institute, see Green, *Debtors to Their Profession: A History of the Institute of Bankers 1879-1979*.
[102] Ibid., 47 fn, 52 fn.

with a compulsory paper in English composition and banking correspondence.[103] In fact, future bank managers were to receive training at another institution, as Sir Felix Schuster, President of the Institute of Bankers and Governor of the Union of London and Smiths Bank, recognised:

> the opportunities which [the London School of Economics] affords (probably unequalled in this country or any other) for training in the higher branches of business administration are certainly worth the attention of our students, especially those whose ambition it is to rise to the higher grades and to take command of large administrative work of any kind, and for whom scientific as well as business capacity is essential.[104]

The development of elite business schools took place slightly later than in France, and in fact, one of these schools drew particular inspiration from France. Both public and private interests pushed for the creation of the London School of Economics and Political Science (LSE) in 1895.[105] Beatrice and Sydney Webb helped to found the LSE with a donation, admitting the influence that the French experience had had on them. Indeed Sydney Webb claimed that 'my wife and I resolved to… start a centre of economic teaching and research in London on the lines of Paris.'[106] This school offered two commercial degrees, the B.Sc. (Econ) and the B.Com., which both required passing examinations in law, political science, economic history, statistics, and scientific method. The B.Com. offered additional training in questions of banking, currency, commerce, international transport, industry and public institutions.[107] There were also schools of commerce operating

[103] Ibid., 82.
[104] Ibid., 83.
[105] Michael Sanderson, 'French Influences on Technical and Managerial Education in England, 1870-1940', in *Management and Business in Britain and France: The Age of the Corporate Economy*, ed. Youssef Cassis, François Crouzet, and Terry Gourvish (Oxford: Oxford University Press, 1995), pp. 119–121.
[106] Ibid.
[107] Revue d'économie politique, *L'enseignement économique en France et à l'étranger*, Cinquantenaire de la Revue d'économie politique (Paris: Librairie du Recueil Sirey, 1937), pp. 67–69.

in Manchester and Birmingham.[108] Interestingly, before the Faculty of Commerce of Birmingham opened in 1902, one of its professors, W. J. Ashley, 'visited Germany to look at the recently created Handelshochschulen.'[109]

Some in the past have pointed to the role of the *Realschule* in Germany, which dispensed practical training to students in their teenage years, but these school had little in common with the French and British institutions mentioned above. Indeed, the *Realschule* trained students from as early as 13 years old and did not even require an Abitur (A-level equivalent). In Germany, it was the *Handelshochschulen* created at the turn of the century that were intended for the 'training of leaders of the economy.'[110] The business schools of Leipzig, St Gallen, Aachen, and Vienna came first in 1898, then came the ones of Cologne and Frankfurt am Main in 1901, that of Berlin in 1906, Mannheim in 1907, Munich in 1910, Königsberg in 1915, and Nuremberg in 1919.[111] Here, statistics were used and transmitted to future bankers. While languages were part of the curriculum, as the impressive pre-1914 list of classes at the Cologne business school demonstrates (language courses on offer included French, Russian, Japanese, Chinese, modern Arabic, modern Persian, modern Greek, Hindi, and Sanskrit), the central part of the teaching was macroeconomics (*Volkwirtschaftslehre*), law, geography, science of trade, natural sciences, and technology.[112] Very rapidly, schools such as Cologne and Berlin

[108] Kadish and Tribe, "Introduction: The Supply of and Demand for Economic in Late Victorian Britain," 8.
[109] Christopher J. Napier, 'Accounting and the Absence of a Business Economics Tradition in the United Kingdom', *European Accounting Review* 5:3 (1996), pp. 455–456.
[110] H Müller-Merbach, "Management Science in Germany and Its Impact on German Management Practice," *Omega* 16, no. 3 (1988): 197; Revue d'économie politique, *L'enseignement économique en France et à l'étranger*, 129.
[111] Müller-Merbach, "Management Science in Germany and Its Impact on German Management Practice," 197.
[112] Hannelore Ludwig, *Die wirtschafts- und sozialwissenschaftliche Lehre in Köln: von 1901 bis 1989/90* (Köln: Böhlau, 1991), p. 16–17.

developed courses on banking (*Handelstechnik der Banken*).[113] In Cologne, this course was taught by Ernst Walb, who had written about and been schooled in cameralism, the discipline that had produced statistics.[114] Based on this evidence about Germany, it becomes obvious that German joint stock banks could not recruit any employees that were highly trained in financial and commercial sciences until the early twentieth century, as there were no business schools. It is therefore a misinterpretation to claim that the non-recruitment of such students was a conscious choice: there was simply no available source of well-trained employees.[115] The Deutsche Bank for instance mostly recruited people with GCSE-level qualifications, and only a few recruits seems to have had an Abitur.[116] The law students who did receive economic training generally became civil servants who would organise the German economy,[117] rather than bankers. One alternative for the Deutsche Bank was to recruit men with foreign experience, for instance Georg Siemens and Herman Wallich, the former having acquired experience in Persia working for Siemens, and the latter in China setting up the Shanghai branch of the Comptoir d'Escompte.[118] These men however, were the directors of the company, not the mid-level managers devising methods to assess sovereigns as rigorously as possible.

In the United States, 'the period of vigorous development in the teaching of commercial and economic subjects' began at 'the end of first decade of the

[113] Revue d'économie politique, *L'enseignement économique en France et à l'étranger*, p. 135.
[114] Ludwig, *Die wirtschafts- und sozialwissenschaftliche Lehre in Köln*, p. 50.
[115] Gall et al., *The Deutsche Bank, 1870-1995*, 113–21.
[116] Ibid.
[117] Behlül Üsdiken, Alfred Kieser, and Peter Kjaer, "Academy, Economy and Polity: Betriebswirtschaftslehre in Germany, Denmark and Turkey before 1945," *Business History* 46, no. 3 (2004): 387.
[118] Gall et al., *The Deutsche Bank, 1870-1995*, 51–52.

twentieth century.'[119] W. J. Ashley, the same Englishman who had travelled to see German business schools before founding the Faculty of Commerce in Birmingham, spoke highly of American universities. He lauded that fact that, by comparison with the English universities, Harvard offered courses not only on political economy generally, but also on subjects such as Tariffs, Money and Banking.[120] Because of this he claimed, 'business men there, for the last two or three decades, have sent their sons to the universities.'[121] Accordingly, in the United States, it was also through universities that business people acquired a commercial education, and not only in commercial schools (e.g. Wharton business school).

From around the 1880s to the 1910s, there was a real burst in formal business education in France, Germany, Britain and the United States. The students who studied in business schools, and in the United States in universities, took courses about statistics, states' finances, and banking. They studied states in a comparative manner, as the brief overview of courses reveals. There is accordingly little doubt that this 'statistical' way of thinking about sovereigns was spreading throughout societies and reaching the graduates of these new institutions of higher education. In the same way as for other forms of knowledge, for instance gentility, the spread of statistics was followed by two developments. First, with time statistics was becoming more and more commonplace in society, and as a result, the importance of a specialised education to understand and use statistics declined. One need only realise that nowadays, we start comparing states on the basis of quantifiable facts

[119] Alon Kadish and Keith Tribe, 'Introduction: The Supply of and Demand for Economic in Late Victorian Britain', in *The Market for Political Economy: The Advent of Economics in British University Culture*, by Alon Kadish and Keith Tribe (London: Routledge, 1993), p. 8.
[120] W. J. Ashley, 'The Universities and Commercial Education', *The North American Review* 176: 554 (1903), p. 34.
[121] Ibid., p. 33.

in primary school geography or history. The second development was that the meaning of statistics was also gradually shifting in the nineteenth century, such that it came to refer to the gathering and organisation of data regarding objects other than the state (and eventually to probability as well). In order to illustrate how exactly statistics reached the new sovereign lenders, the next section relies on three examples. The first and most-documented is the experience of the Crédit Lyonnais, the second is Moody's, a credit rating agency, and the third an international organization, the League of Nations.

IV. Three examples: The Crédit Lyonnais, Moody's, and the League of Nations

Oddly enough, lenders did not rely systematically on statistics before at least the last decade of the nineteenth century. Although, as we saw earlier, a large quantity of financial information was available in financial periodicals, it is as if these statistics, which could be obtained at a relatively cheap price, were of little use to bankers and investors. It is true that numerical literacy does not seem to have been at an all-time high even by the interwar period, when Guy de Rothschild described the financial training of the Paris branch of the Rothschild Bank as 'learning to quote interest rates in fractions instead of decimals, which he was taught by a clerk whose other function was to read him selections from the newspapers in the morning.'[122] With such rudimentary training, it is no wonder that old merchant banks did not produce any systematic rankings of sovereigns. How then, did statistics reach sovereign lenders?

[122] Ferguson, *The House of Rothschild Vol. 2*, p. 458.

The answer to this question is linked to the emergence of new actors in the business of sovereign lending. In the preceding chapter (5), I shed light on the social characteristics of new sovereign lenders and their nature (for many) as social outsiders in sovereign lending. How, then, did these actors 'know' foreign sovereigns? The staff of joint stock banks was made up of young men from the rising bourgeois class. As the nineteenth century drew to a close, these men were more educated and a number of the higher-ranking ones attended business schools. Naturally, the training they went through shaped the way in which they thought about states and about the assessment of their credit worthiness. With their statistical knowledge, business school graduates went on to work in banks and they developed the first statistical ratings of sovereigns. They did this in order to guide their institutions in the risky business of sovereign lending, and in foreign lending more broadly.

This type of development can for instance be observed in the case of the Crédit Lyonnais, which possesses particularly well-preserved archives and also happens to be the first bank to have produced sovereign rankings for financial purposes.[123] On the eve of the First World War, the Crédit Lyonnais was the largest French bank, comparable in size to the largest City banks.[124] Having been founded in 1863, the

[123] Some banks produced ratings of merchants or businesses during the nineteenth century, but never of sovereigns, which goes to show that the move from one to the other was by no means logical. In fact, I would venture to say that bankers saw sovereign lending as something qualitatively different from lending to a business or merchant. For scattered comments on the rating of businesses and merchants in the nineteenth century, see Pohle Fraser, "Personal and Impersonal Exchange. The Role of Reputation in Banking: Some Evidence from Nineteenth and Early Twentieth Century Banks' Archives," 177–78 fn. 1; Flandreau and Geisler Mesevage, "The Rise of Rating Agencies in the US," 7 fn. 22; Marc Flandreau and Stefano Ugolini, "Where It All Began: Lending of Last Resort and the Bank of England during the Overend-Gurney Panic of 1866" (CEPR Discussion Paper DP8362, April 2011), www.cepr.org/active/publications/discussion_papers/dp.php?dpno=8362. See also Rowena Olegario, *A Culture of Credit: Embedding Trust and Transparency in American Business* (Cambridge, MA: Harvard University Press, 2006).

[124] Alain Plessis, 'The History of Banks in France', in *Handbook on the History of European Banks*, ed. Manfred Pohl and Sabine Freitag (Aldershot: Edward Elgar, 1994), pp. 199–201.

bank turned to foreign lending as early as the 1870s. It accordingly needed to gather information about foreign states, companies, and public utilities. To this end, it created a specific division, the Service des Études Financières (SEF). This service could tap into the statistical information available in various press outlets, but it was not always clear how accurate this information was. Another issue was that there was no international agreement as to how national accounts should be kept; this made the systematic comparison of sources mandatory.[125]

The founder of the bank, Henri Germain, was allegedly inspired by positivism, a fact which was reflected in his 'obsession of informing himself meticulously.'[126] He was embedded in a social circle of French engineers from the Ecole Polytechnique and he published widely on economics. One of his close friends was Emile Cheysson,[127] a statistician who propagated statistics through the *Journal de la Société Statistique de Paris.*[128] When he opened the SEF, he turned to Alphonse Courtois to lead the division. Courtois was an influential liberal who authored numerous books on finance, amongst which one finds a statistical series about the Paris Bourse mentioned earlier, the *Manuel des fonds publics et des sociétés par actions.*[129]

The biggest problem for the SEF was that of human capital. First, the bank was relatively young and therefore did not appeal to new graduates. Second and more importantly, there were next to no 'qualified' graduates. There were a few engineers from the Grandes Écoles who had basic training in political economy, but

[125] Marc Flandreau, 'Le Service Des Etudes Financières Sous Henri German (1871-1905): Une Macro-économie D'acteurs', in *Le Crédit Lyonnais, 1863-1986: études Historiques* (Paris: Droz, 2003), p. 280.
[126] Bertrand de Lafargue, 'Henri Germain (1824-1905): Un Banquier En Politique', in *Le Crédit Lyonnais, 1863-1986: études Historiques*, ed. Bernard Desjardins et al. (Paris: Droz, 2003), p. 59.
[127] Ibid., p. 48.
[128] Desrosières, *The Politics of Large Numbers*, p. 154.
[129] Flandreau, 'Le Service Des Etudes Financières Sous Henri German (1871-1905): Une Macro-économie d'acteurs', p. 274.

that discipline was 'vague and theoretical'[130] – a complaint which echoes that concerning political economy in Oxford and Cambridge. As a result, there was but a small team of 20 employees until November 1889. At this point the SEF grew in numbers from a budget of 200,000 F to one of nearly 1 million F in 1900, and from 20 people to 100 after 1900.[131] The reason for this change was in great part the bank's turn to foreign investments and the Argentine debt crisis of 1890.[132] However, the problem of graduates had also been 'solved' as new higher education institutions dispensed training in statistics, public finances and economics: the Ecole libre de sciences politiques, the Hautes Etudes Commerciales, and the Ecole Superieure de Commerce.[133] It was the people who graduated from these new institutions of higher education who then went on to develop new methods for knowing sovereigns and assessing their creditworthiness. The competence of the the Crédit Lyonnais' employees was widely recognised by foreign banks, and for this reason banks like Midland sometimes 'recruited experienced dealers from the successful European banks' such as 'David Miller and David Lorsignol from the Crédit Lyonnais', though this practice was rare before the First World War.[134] The outcome of the recruitment of such well-trained men at the Crédit Lyonnais was that in 1898, the section dedicated to financial studies created the first sovereign credit ratings (see Table 6.2). Sovereigns' credit was ranked according to revenue, expenses, difference between revenue and total spending, the ratio of the net product of assets to interests on the debt, as well as the ratio of debt interests to

[130] Ibid., 274–75.
[131] Ibid., 276–77.
[132] Ibid., 281–82.
[133] Ibid., 275–76.
[134] Holmes and Cooper, *Midland*, 134.

normal revenues. The output was a three-tiered table, containing three groups of states, separated according to their credit-worthiness.[135]

Table 6.2 *Sovereign credit ratings constructed by the Crédit Lyonnais in 1898*

States whose financial management is of first order	
1. Germany	7. Denmark
2. Great Britain	8. Belgium
3. United States	9. Norway
4. Russia	10. Switzerland
5. Sweden	11-20. Swiss cantons
6. Finland	21. Transvaal
States whose financial management is of second order	
Holland	British India
Egypt	Hungary
Japan	Romania
Austria	Italy
Dutch Indies	Chile
States whose financial management is of third order	
Spain	Portugal
Bulgaria and Rumelia	Greece
Argentina	Serbia
Brazil	

(Source: Archives Historiques du Crédit Lyonnais, DEEF 72879/1, Classification des Etats d'après les résultats de leur gestion financière)

These ratings were not public as they were intended for the Crédit Lyonnais' exclusive use. And yet, when the SEF was launched, the Crédit Lyonnais made sure to invite journalists to get a simple message across: we are well-informed.[136] The goal was for the public to know that they too, had good information, and that it was possible to be well-informed, without being a part of the *haute banque*.[137] Although joint stock banks like the Crédit Lyonnais would not take the lead in the sovereign

[135] One of the interesting features of this table is that it ranks semi-sovereign entities such as British India and the Dutch Indies. The question is whether the Crédit Lyonnais did this because they believed that these entities could genuinely default. If so, this would pose a major problem to Flandreau's argument that British colonies were in fact legally protected from default by the metropole.

[136] Flandreau, "Le Service Des Etudes Financières Sous Henri Germain (1871-1905): Une Macro-Économie D'acteurs," 278–79.

[137] On the link between statistics and public trust see Theodore M. Porter, *Trust in Numbers: The Pursuit of Objectivity in Science and Public Life* (Princeton, NJ: Princeton University Press, 1996).

lending business during the interwar period, the bank practice of ranking sovereigns on the basis of statistics for financial purposes emerged in 1898.

In the United States, the conditions surrounding the emergence of statistical assessments of sovereign borrowers differed in one main respect: some companies, credit rating agencies, specialised solely in the rating business. Their main clients were the commercial banks and investment funds, as well as individual investors. According to an historian of credit rating, this was quite simply due to the prior existence of a huge market of railroad bonds, for which there were many individual prospective bondholders.[138] It was in this context that about twenty years after the Crédit Lyonnais, in 1918, Moody's followed the same *modus operandi* and started ranking the credit of ten sovereigns based on alphabetical 'grades.'[139] Poor's followed suit in 1922, while Standard Statistics and Fitch began sovereign ratings in 1924.[140]

In a sense, this happened at an unsurprising time, just when the United States was becoming the world's bankers, to use Herbert Feis' expression.[141] Because this was happening at a later time than when the Crédit Lyonnais started producing rankings based on statistics, two factors were altered. First, there was more official information available, notably from the American departments and embassies and eventually, from the newly-created League of Nations.[142] Second, it was easier to find competent staff to produce ratings. From the meagre evidence

[138] Sylla, "A Historical Primer on the Business of Credit Rating."
[139] In 1918, Moody's sovereign ratings covered ten foreign issuers: Argentina, Canada, Cuba, the Dominican Republic, France, Japan, Norway, Panama, Switzerland, and the United Kingdom, see Gaillard, *A Century of Sovereign Ratings*, p. 4.
[140] Ibid.; Sinclair, *The New Masters of Capital*, 24.
[141] On the United States becoming the world's banker, see Cassis, *Capitals of Capital*, chap. 4. For Herbert Feis' expression see Feis, *Europe, the World's Banker, 1870-1914*.
[142] Gaillard, *A Century of Sovereign Ratings*, 35.

that is available concerning the profile of analysts in these companies, it appears that rating agencies prized individuals with a Ph.D. in economics. By no means did all sovereign analysts hold this degree, but it was clearly valued and ratings were assessed against the type of knowledge held by people with such qualifications. In addition, twenty years after the Crédit Lyonnais' experience, more and more people had become familiar with statistics without going through a specialised education. At Moody's, from 1922 until 1928, the head of the department tasked with sovereign ratings was Max Winkler, rather unsurprisingly, the holder of a Ph.D. in economics.[143] Winkler also published on the question of sovereign lending, for instance with his gloomily titled book, *Foreign bonds, an autopsy* (1933).[144] It was under his directorship that the sovereign ratings division at Moody's developed a comprehensive list of 25 criteria to judge the creditworthiness of sovereign bonds (see Table 6.3).[145] As in the case of the Crédit Lyonnais, these criteria were not part of a formula, but constituted broad guidance to assess sovereign bonds.[146] The first striking point is that at least half of these criteria are quantifiable in a very clear sense. A second observation can be made regarding the presence of some puzzling criteria, for instance 'racial characteristics of population.' Here, these criteria seem to differ greatly from those of the Crédit Lyonnais. The persistence of such criteria in 1924 should not be brushed aside but rather considered as an indication that the rise of statistics as a means of knowing sovereigns left plenty of room for what many of us today would deem to be non-objective criteria.[147]

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[143] Ibid., 32.
[144] Max Winkler, *Foreign Bonds, an Autopsy: A Study of Defaults and Repudiations of Government Obligations* (Philadelphia: Roland Swain Company, 1933). See also his Max Winkler, *Investments of United States Capital in Latin America* (Boston: World Peace Foundation, 1928).
[145] Gaillard, *A Century of Sovereign Ratings*, 47–49.
[146] Ibid., 60.
[147] It would be interesting to conduct a deeper investigation of these differences, but this is beyond the scope of this thesis.

Table 6.3 *Moody's 25 sovereign rating criteria in 1924*

1. Legality and validity of issue	13. Ratio of growth in debt and wealth
2. Tax exemptions in the country of issue	14. Importance of state-owned industries
3. International alliances	15. Monetary system
4. Racial characteristics of population	16. Existence of sinking funds
5. Educational standards	17. Past record
6. Occupational statistics	18. Promptness of interest payments
7. Institutional and political stability	19. Bonds payable in gold or in bills
8. Risk of debt repudiation	20. Exchange rates
9. Natural resources	21. Government revenues, expenses and taxation
10. Per capita wealth	
11. Ratio of national debt to national wealth	22. Visible foreign trade
12. Ratio of annual debt charges to annual revenues	23. Blind items of exchange
	24. Currency system
	25. Degree of industrialization

Source: Norbert Gaillard, *A Century of Sovereign Ratings* (2012), 47-49.

One key fact to keep in mind is that until the 1970s, the sovereign ratings produced by rating agencies were not public. They were sold to investors, constituting what was called an 'investor-pays' model, as opposed to an 'issuer-pays' model.[148] From the 1970s onwards, it was those who wanted to be rated that paid the rating agencies, and the ratings became freely available to all investors.[149]

Earlier, I mentioned the League of Nations and the role it played in producing statistical information about sovereigns. The League of Nations was the first truly international organisation to play an active role in the business of sovereign lending, and in economics and finance more broadly.[150] As Patricia Clavin puts it, the League's 'undertaking in economics were so central to its self-identity that they formed the basis of attempts to reinvent the organization and its role in international relations.'[151] At the core of these activities was the League of Nations' Economic

[148] Sinclair, *The New Masters of Capital*, 26.
[149] Herwig Langohr and Patricia Langohr, *The Rating Agencies and Their Credit Ratings: What They Are, How They Work and Why They Are Relevant* (Hoboken, NJ: John Wiley & Sons, 2009), 411–12.
I will come back to the importance of the 1970s in the conclusion.
[150] Clavin, *Securing the World Economy*, 1.
[151] Ibid.

and Financial Organization (EFO) created to 'stabilize financial crises in Austria, Hungary, Bulgaria, and Greece,' and eventually in other nations as well.[152] This body, whose initial goal was to 'collate global intelligence,'[153] experienced its own statistical movement. Indeed, in the EFO the drive 'to measure and consistently to compare constituent parts of the world' was underpinned by the prominent role of statisticians.[154] Tasks such as the 'production of economic information,' nowadays devolved to the International Monetary Fund, were 'already known by its League of Nations predecessors.'[155]

This was important because the League had a considerable amount of influence on a number of interwar loans. It did not possess its own capital, but it acted as a 'money doctor' by providing a seal of approval to those who sought its help, after a thorough examination of their financial situation – much like other financial actors of the day did.[156] Between 1923 and 1928, the League of Nations participated in nine loans, for six sovereign entities.[157] The extent of data collection about these countries and all of the world's states can be observed through the extensive series of periodicals created by the Economic and Financial sections, e.g. *Statistical Yearbook of the League of Nations*, *Monthly Bulletin of Statistics*, *Money and Banking*, *International Trade Statistics*, *World Economic Survey*, *Review of World Trade*, and even an oddly named *International Trade in Certain Raw Materials and Foodstuffs*.[158] This knowledge was the basis for the constitution of

[152] Ibid., 2.
[153] Ibid., 6.
[154] Patricia Clavin, *Securing the World Economy: The Reinvention of the League of Nations, 1920-1946* (Oxford: Oxford University Press, 2013), pp. 21–22.
[155] Yann Decorzant and Juan H. Flores, "Public Borrowing in Harsh Times : The League of Nations Loans Revisited," Working Papers in Economic History (Institute of Economics and Econometrics, Geneva School of Economics and Management, University of Geneva, 2012), 2, http://ideas.repec.org/p/cte/whrepe/wp12-07.html.
[156] Flores Zendejas and Decorzant, "Going Multilateral?," 2.
[157] Ibid., 5.
[158] Clavin, *Securing the World Economy*, 36.

the League of Nations' seal of approval on financial markets. And yet, though it was developing its own reputation through statistical expertise, one notes that it had to rely on the good will of J. P. Morgan or Speyer & Co., two merchant banks, to launch its first loans to Austria and Hungary, as only their names would convince investors to buy these bonds.[159]

V. Conclusion

In this chapter, I have historicised the development of statistics, i.e. the description of states through quantifiable facts, and shown how it eventually reached a specific group of sovereign lenders at the very end of the nineteenth century and in the early twentieth. One of the striking features of this drawn out process is, to put it in the words of Ian Hacking, that '[e]conomic need does not, in this case, seem well correlated with growth of understanding; nor does growth of understanding seem well correlated with satisfaction of economic needs.'[160]

Emerging in the mid-eighteenth century in Germany, statistics was initially concerned with measuring the power of states. A group of German international lawyers and historians (particularly those in Göttingen) were trying to make sense of the changing international context around them, not least the crumbling of the Holy Roman Empire and the rise of great power rivalries in a polity which had hitherto relied on law to regulate internal conflicts. There were some similar developments in other parts of Europe, particularly in England, as more and more journalists were developing a discourse that identified international actors as

[159] Flores Zendejas and Decorzant, "Going Multilateral?," 10–17.
[160] Ian Hacking, *The Emergence of Probability: A Philosophical Study of Early Ideas About Probability, Introduction and Statistical Inference* (Cambridge University Press, 1984), 5. The statement in this case refers to the emergence of probabilistic statistics and its economic use. But as we saw here, the development of statistics in the more simple sense of describing states through quantifiable facts was also not well correlated with economic need.

'powers.' Gradually, it was thought that power ought to be measured, and this is exactly what *Statistik* did, by examining population, national wealth, and other increasingly quantifiable criteria. Some of the students exposed to this new discipline included the future Austrian statesman Prince von Metternich, and the famous nineteenth century international lawyer Georg Friedrich von Martens, both key figures of the Congress of Vienna, which witnessed the creation of the first international statistical commission.

Having described this movement, I then proceeded to outline how it was that statistics reached the new sovereign lenders. In this respect, the 1830s were the first real turning point with the significant multiplication of official statistical bureaux in Europe. One or two decades later, an increasing number of publications, among which one finds of course *The Economist*, were making statistics about different countries available to a broad public. It is however worth noting that at this point and until the interwar period, information about sovereigns' finances and other indicators was still in many ways inaccurate. What the prominent statistician August Ludwig von Schlözer called 'the statistical gaze' only started reaching sovereign lenders in the early twentieth century, and it did so for the most part through business schools. Many graduates from the newly created business schools such as HEC, LSE, the German *Handelshochschulen*, or even from economics departments in American universities, went on to work in banks and credit rating agencies. Individuals trained in statistics also joined the League of Nations which became an immensely consequential purveyor of statistical information in the world, not least because of the standardisation it imposed on national statistics. This statistical work was the basis of the League's involvement in sovereign lending in the interwar period.

It was in this way that the new world of sovereign lending came about, populated by bankers, statisticians and economists whose main means of knowing sovereigns was statistics. This new form of knowledge characterises the new sovereign lending, which slowly took root in the interwar years. Notwithstanding this new development, as we saw in Chapter 3, historians of international finance hold that in the interwar period, the business of sovereign lending was still dominated by merchant banks. In the thirties, this world was brought down as private international capital flows came to a halt. This did not change after the Second World War; there was no lending to foreign sovereigns from private sources. Capital went through the International Monetary Fund, the World Bank, or direct bilateral aid in the Marshall Plan. Of course, many of the statisticians and other experts of the League of Nations continued their careers in the IMF and the World Bank (ex-IBRD).[161] This was one dimension of continuity.

As for private lending to foreign sovereigns, this only took off again in the 1970s with the re-emergence of international finance, as Eric Helleiner has so aptly shown.[162] This is one of the reasons for which credit rating agencies returned to sovereign rating from the 1970s onwards. Between 1968 and 1974, because of the irrelevance of private international finance to sovereign borrowing, Standard & Poor's had suspended 'almost all sovereign ratings.'[163] It was only rating two sovereigns, the United States, its home market, and Canada, the only sovereign exempted from capital control regulations, particularly the interest equalisation tax.[164] During the same time period, Fitch had suspended all sovereign ratings.[165]

[161] Clavin, *Securing the World Economy*, chap. 10 (Conclusion).
[162] Helleiner, *States and the Reemergence of Global Finance*.
[163] Abdelal, *Capital Rules*, 167.
[164] Ibid.; Norbert Gaillard, *Les Agences de Notation* (Paris: La Decouverte, 2010), 48.
[165] Gaillard, *Les Agences de Notation*, 48.

The capital controls in place during the Bretton Woods era allowed for what economist Carmen Reinhart has called the 'liquidation of government debt,' notably by forcing captive domestic financial institutions, for instance pension funds, to hold low interest rate sovereign bonds.[166] When sovereign lending from private sources, be they bank or other financial institutions, resumed, the new world of sovereign lending had finally triumphed. This new order was based on a distinct form of knowledge, namely statistics. In the conclusion to which I will now turn, it will be worth pondering about the implications of sovereign lenders' new form of knowledge.

[166] Carmen M. Reinhart and M. Belen Sbrancia, "The Liquidation of Government Debt," Working Paper (National Bureau of Economic Research, March 2011), http://www.nber.org/papers/w16893.

Chapter 7. Conclusion

I. The changing practice of sovereign lending and its implications

This thesis began with a simple empirical puzzle contrasting two pieces of evidence in which lenders related in radically different ways to the sovereigns to whom they wanted to lend. The two snapshots represented respectively what I called the old sovereign lending and the new. The discrepancy between the two situations, separated by about three quarters of a century, provided a way into the question of how the practice of sovereign lending changed since the early nineteenth century. The simple question was: what made these two worlds of sovereign lending possible and different? I argued that the fundamental difference between the old sovereign lending and the new consisted in the fact that they were underpinned by radically different forms of knowledge, i.e. ways of knowing and representing international actors: gentility for one, and statistics for the other.

The gradual change in how the practice of sovereign lending functioned between the early nineteenth century and the middle of the twentieth poses one major question to existing accounts of sovereign lending. It upsets the widely-shared assumption that lenders always think in the same way, and that the only factors that change over time are the amount of information they have, the structure of their relations with sovereigns, or sovereigns themselves.[1] This thesis suggests

[1] The following books are good examples of scholarship based on this assumption, Aggarwal, *Debt Games*; Mosley, *Global Capital and National Governments*; Kenneth A. Schultz and Barry R. Weingast, "The Democratic Advantage: Institutional Foundations of Financial Power in International Competition," *International Organization* 57, no. 1 (2003): 3–42; David Stasavage, *States of Credit : Size, Power, and the Development of European Polities* (Princeton, NJ; Woodstock: Princeton University Press, 2011); Tomz, *Reputation and International Cooperation*. Flandreau et al. draw attention to the changing market structure but fail to explore how lenders think fundamentally differently at different historical points, see e.g. Flandreau and Flores, "The Peaceful Conspiracy."

that we cannot assume that lenders remain the same throughout time, that they think in the same manner. For instance, it makes little sense to claim that reputation is the key variable that has underpinned sovereign lending since the eighteenth century,[2] for this reputation might rest on interpersonal relations or swathes of quantitative data, resulting in markedly different worlds. Failing to see this would be the equivalent of claiming that authority has been a key variable in international relations since the eighteenth century, without specifying whether its underpinnings are traditional or rational-legal, to use Weber's typology. In light of this, one must conclude that it is necessary to radically historicise agency.

To use a metaphor, it is insufficient to imagine people's minds as stable formulas which receive more or less information at different points in history. These formulas change over time, and forms of knowledge are a key part of this change, particularly for those interested in international relations. The absence of such interest in historicising agency may be due to the widespread reliance on rational choice as a central assumption of work about sovereign lending and international finance more broadly. However, I do not think it impossible to achieve this within the rationalist tradition. Though this falls largely beyond the scope of this thesis, I simply want to suggest here that using the assumption of bounded rationality to its full extent would provide good grounds for historicising agency, notably by drawing more heavily on work at the intersection of cultural and behavioural sciences.[3]

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[2] Tomz, *Reputation and International Cooperation*.

[3] For two particularly useful landmark articles, see Joseph Henrich, Steven J. Heine, and Ara Norenzayan, "The Weirdest People in the World?," *Behavioral and Brain Sciences* 33, no. 2–3 (2010): 61–83; Hazel Rose Markus and Shinobu Kitayama, "Culture and the Self: Implications for Cognition, Emotion, and Motivation.," *Psychological Review* 98, no. 2 (1995). Though these two pieces lay emphasis on culture and its variation in space, there is no reason to think that a similar argument cannot be made with regards to knowledge and its variation in time.

As we saw, the change from the old to the new sovereign lending was driven in large part by new lenders, notably joint stock banks that gradually encroached on the business of the old merchant bankers. The decline of family-based banks in favour of joint stock banks throughout the nineteenth and in the early twentieth century has received surprisingly little attention from scholars in the field of International Political Economy. This development, which echoes the decline of dynastic international relations and the rise inter-state or inter-imperial relations, ought to receive far more attention in future research as it is a central feature of the contemporary global economy. In sovereign lending, this change gathered speed in the interwar period. This fact implies that contemporary international financial activity takes place in structures that are fundamentally different to those of the first globalisation. One specific point of interest might be, to put it in Weberian terms, the issue of how these changing financial structures relate to the question of ethics and the 'spirit of capitalism.' It is not difficult to imagine that a world where commercial goals are intertwined with those of families might rest on very different ethics and produce a dissimilar type of capitalism to a world populated by joint stock companies and scattered shareholders. For instance, we saw in this thesis that family and group-based solidarity among merchant bankers used to play a considerable role in international finance. Thus, part of the problem caused by the decline of merchant bankers in the interwar period was that it required replacing old mechanisms of financial stability underpinned by merchant bankers, with new ones. While large family companies still exist today, their steep decline in international finance and beyond constitute an important change in the world economy which merits further scholarly attention.

These transformations point to the significance of the interwar period as one of radical international economic change. A classic line of argument, first developed by Karl Polanyi and later taken up in another form by John Ruggie posits that during the interwar years, policymakers and people more broadly started reconsidering the place of markets in relation to society.[4] In what Polanyi called the 'double movement' society reacted against the expansion of market principles to more and more areas of social life. This reaction was the onset of the embedding of liberalism which arguably became a defining feature of the post-1945 world. This argument suggests that international policymakers formed a new consensus about the rightful place of markets and the need for governments to be able to define this place following the Second World War. My argument suggests another dimension to this story. From the interwar period to the beginning of the second globalisation (roughly the same period as the one taken up by Ruggie) there was an equally important shift not among policymakers, but among market actors. This shift was quite simply the deep enshrinement of a new form of knowledge, i.e. statistics, among lenders to sovereigns and beyond. In other words, while an important change was taking place in terms of how policymakers viewed markets, their place, and function, a parallel change was taking place in terms of how market actors themselves perceived states. Extensive use of this new form of knowledge redefined how sovereigns ought to be known. This radical transformation in the kinds of knowledge used by lenders quite literally altered what sovereigns were, whether it was through sovereign credit ratings produced by banks and rating agencies, or by means of new statistical representations of sovereigns in international institutions.

[4] Polanyi, *The Great Transformation*; Ruggie, "International Regimes, Transactions, and Change." Barry Eichengreen's argument about the role of democratic politics and organised labour in preventing a return to the old gold standard draws on similar reasoning. See Eichengreen, *Globalizing Capital*.

II. The development of the new sovereign lending

As we saw, the old sovereign lending was dominant until the interwar period, at which point the new actors were gaining ground. A few joint stock banks were involved directly in sovereign lending, while institutions like rating agencies and the League of Nations were becoming more prominent in this area of business. However, it took another forty years for the new sovereign lending to be fully established. After the Second World War, many of the economists and statisticians of the League of Nations (an institution that had migrated to the United States), continued to work in new international institutions, of which the most prominent were the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD, later World Bank). These peope carried with them the 'idea that the world could be directed by using figures, numbers, and statistical categories.'[5] By contrast with the League of Nations, these institutions directly lent money to sovereigns. For the professionals that had migrated from the League of Nations to these institutions, it was a matter of course that they should continue to rely on the same form of knowledge, namely statistics.

These international institutions constituted one element of continuity of the new sovereign lending from the interwar period, and they continue to be central to the financing of (mainly) developing countries. But what about the joint stock banks and rating agencies which were critical to the development of the new sovereign lending, particularly through the creation of sovereign credit ratings? These actors only came back to the business of sovereign lending with the re-emergence of international finance that took place when Bretton Woods era capital controls were

[5] Clavin, *Securing the World Economy*, 347.

gradually stripped in the late 1960s and throughout the 1970s.[6] Thus banks were able to start lending to foreign sovereigns once more, sometimes with disastrous consequences, such as the Mexican debt crisis of 1982. At about the same time, credit rating agencies resumed their sovereign ratings for sovereigns the world over. At this point, the old sovereign lending and its actors were gone, and the new sovereign lending was triumphant.

Previous contributions have failed to see how odd and unusual it is to use numbers to know and represent states in the practice of sovereign lending. It is indeed deeply unusual and a fundamentally unique characteristic of our current time that sovereign lenders systematically rely on statistics to know the states to which they lend. This is a key difference between sovereign lending as it functioned during the first globalisation of the late nineteenth and early twentieth century, and during the second globalisation of the late twentieth and early twenty-first century. During this second globalisation, and particularly from the 1980s onwards, countries increasingly came under the statistical gaze of sovereign lenders. The extensive reliance on this form of knowledge by market actors and international institutions lending to states coincides with the era that has been so deeply associated with the rise of neoliberalism (or the dis-embedding of liberalism). Thus, the relation between states and markets has been in some sense altered not only because of new and questionable normative ideals about the role that the state should occupy in the economy, but also because of the changing ways in which market actors know the sovereigns to whom they lend. The transformation of the 1970s and 1980s thus also hinges on a deep epistemic shift within markets.

[6] On this key question, see Abdelal, *Capital Rules*; Helleiner, *States and the Reemergence of Global Finance*.

III. Forms of knowledge and how the 'world hangs together'

Sovereign lending, whether it serves to build critical infrastructure, fund wars, manage empires, or kick start stagnating economies, has long been and remains a key practice of international relations. At the risk of stating the obvious, in order to partake in sovereign lending, lenders have to engage with sovereigns, in the same way that a diplomat or an international lawyer must do so. But while many studies examine diplomats' or international lawyers' changing ideas about sovereigns (or to use a broader term, international actors) to understand how diplomacy and international law change, studies of sovereign lending have shied away from similar endeavours. This is precisely the approach I have chosen in order to understand how sovereign lending has changed since the early nineteenth century. Unfortunately, the obstacles to carrying out such an enquiry are almost as high as the payoffs. It is indeed a rather tricky endeavour to pin down how bankers think about sovereigns, not least because by contrast with great philosophers, international lawyers and diplomats, they do not write long treatises about the international. As a result, a key part of this thesis has consisted in finding a solution to this thorny issue.

In order to address the issue, I argued that we ought to replace the question of how people 'think about' international actors, a traditional way of exploring fundamental change in international relations,[7] with the equally interesting question of how people 'know' international actors. In other words, the aim here is to pin down what people think is in the world (an ontological question) by examining how

[7] A classic example of this approach is Reus-Smit, *The Moral Purpose of the State*. For other examples see Mlada Bukovansky, *Legitimacy and Power Politics: The American & French Revolutions in International Political Culture* (Princeton, NJ: Princeton University Press, 2001); Keene, *Beyond the Anarchical Society*; Adam Watson, *The Evolution of International Society: A Comparative Historical Analysis*, 2nd ed. (Routledge, 2009).

they know it (an epistemological question). By contrast with the two key contributions which develop similar lines of argument – those of Jens Bartelson and John Ruggie –[8] I made two important claims. Drawing on the practice turn, the first claim was that we should be particularly concerned with the knowledge that international practitioners use to carry out their tasks. The second claim I made was that the key place to observe this knowledge is education, an area of traditional interest for some of the leading figures of inspiration of the practice turn, notably Pierre Bourdieu and Michel Foucault.

Based on these three points, I developed a concept to tighten the broad notion that there are different ways of knowing international actors, which I call *forms of knowledge*. The first and most basic property of a form of knowledge is that it is a stable and relatively enduring way of knowing and representing international actors. Its second property is that it is a tool for international practitioners; a form of knowledge is fundamentally oriented towards the performance of specific international practices. The third property of a form of knowledge is that it is transmitted through professional or quasi-professional education. This third property bears the key implication of pointing to a particular locale to inquire about the rise, transformation and fall of forms of knowledge, namely the education of international practitioners.

A crucial pay off of this concept is that it allows one to explore the thought of groups of people generally not deemed to think about the international because they do not produce treatises clearly laying out their worldviews. Bankers are a key example here. A second notable advantage of this emphasis on forms of knowledge is that it gives us a firmer grip on the question of international change than

[8] Bartelson, *A Genealogy of Sovereignty*; Ruggie, "Territoriality and beyond."

approaches focusing on the ideas that people have about international actors. This is the case because ideas are often developed to make sense of existing practices; they can be post hoc rationalisations of existing patterns of action. By contrast, and following the practice turn, forms of knowledge are eminently practical; they are bound up in international practices.

The concept of forms of knowledge provided the key to my analysis of what instantiates the old sovereign lending and the new. However, this concept can provide insights into many other international practices and alter our understanding of the construction and transformation of the international system. This thesis used the examples of modern cartography, international treaties, statistics, gentility and heraldry to showcase the potential benefits that the study of forms of knowledge entails. In chapter two, I began to explore how the study of modern cartography and international treaties could lead to an important reappraisal of when and how two key features of the modern international system, territoriality and contractual international law, developed. Though very brief, these examples offer striking illustrations of the potential usefulness of this concept, particularly in helping us to re-periodise fundamental discontinuities in the international system and thus in asking new questions about their causes.

In addition, many of the forms of knowledge examined throughout this thesis point to the eighteenth century as a period of crucial change in international relations, particularly for diplomacy. In diplomatic manuals, international treaties and statistics gradually grew in importance, while gentility lost its centrality. These changes in diplomatic manuals were reflected in practice, for instance with the creation of the first international statistical commission at the Congress of Vienna,

and with the treaty-making revolution of the early nineteenth century.[9] Likewise, towards the end of the eighteenth century, modern cartography became increasingly popular among diplomats involved in treaty-making. These changes were linked to the emergence of professional diplomatic education in universities and the creation of diplomatic schools in cities such as Göttingen, Paris, Strasbourg, and Vienna. Why did diplomats start learning and using these new forms of knowledge and with what consequences?

Scholars have traditionally paid great attention to the international political thought of eighteenth century thinkers such as Immanuel Kant and Jean-Jacques Rousseau. However, to understand actual changes in eighteenth and nineteenth century international relations, the latter being of increasing interest in the academic discipline of International Relations,[10] it may be equally if not more important to examine the forms of knowledge being taught by admittedly less famous thinkers to those who would go on to become crucial international practitioners. Though it certainly sounds less glamorous, such an inquiry holds the promise of producing a sharper account of how the modern international system was made.

[9] See respectively Klueting, *Die Lehre von der Macht der Staaten*; Keene, "The Treaty-Making Revolution of the Nineteenth Century."
[10] For a recent example, see Barry Buzan and George Lawson, *The Global Transformation: History, Modernity and the Making of International Relations* (Cambridge: Cambridge University Press, 2015).

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