



Fashion Trends in Banking Business Models since the 1850s

Hubert Bonin

Evolution in economic trends (third industrial revolution, globalization) and in the money and banking industry has apparently converged. Is the universal banking model merely a fashion trend, a renewed attempt to promote past fashions apparently rejected by banking and banking history? Or is universal banking the key to economic power, so important that there is a “cost of rejecting universal banking”? Our intent is to refresh memories of fashion trends regarding the universal banking model and to determine why, at moments in economic history, the model was praised as a force for accelerating the course and scope of growth. These trends, well known among banking historians, include: Saint-Simonian schemes in the mid-nineteenth century and the *Crédit mobilier* idea; the German model of the *Hausbank* or mixed banking model; the rejection of universal and mixed banking models; the rebuilding of a universal banking model from the 1960s through the 1980s; and the issue of universal banking during the 1990s and 2000s.

To insert banking history into a “fashions” topic may seem far-fetched. The history of management is rich with international fashion trends, “manias,” and conventions, as the business community and academic experts desperately looked for management patterns and jumped on

Hubert Bonin <h.bonin@sciencespobordeaux.fr> is professor of modern economic history at the Institut d'études politiques de Bordeaux and with the Groupe de Recherche en Économie Théorique et Appliquée (GREThA) at the Université Montesquieu Bordeaux 4.

© Business History Conference, 2009. All rights reserved.

URL: <http://www.thebhc.org/publications/BEHonline/2009/bonin.pdf>.

speedier bandwagons in support of growth and competitiveness.¹ The banking community did not escape such fashion trends. In this essay, we scrutinize banking “business models” praised by economists, journalists, public authorities, academics, and even members of Parliament (when regulations were established), which created “business fashions” and, to some extent, herding behavior and cultural frameworks among business elites (and their regulators).² At various times, a compelling logic fostered a reshaping of mindsets and, ultimately, of banking habits that favored a universal banking model or, conversely, a specialization connecting commercial and investment banking. There are “fashions” when banks systematically adopt patterns, perhaps without considering the whole range of positive and negative aspects of the choice. These include increasing pro-cyclical trends, which could threaten the balance of the banking system itself, explaining the recurrent cycle in which universal banking is elevated and then specialization regains momentum.

Perceptions concerning the causes of crisis and the best ways to fuel growth and finance firms (either mid- or large-sized export companies) often led experts to conceive optimal “models,” either for the banking system as a whole or for banks as firms. From the mid-nineteenth century, banking business models were devised to replace the “merchant banking” model, which seemed obsolete. Diverse models were promoted (universal banking, “mixed banking,” “regional banking,” “house banking,” and so forth), without taking into consideration overseas or colonial banking. During the 1930s and 1940s, banking regulations favored bank specialization, which undermined previous trends promoting “mixed banking” and “regional banking.” These policies were re-examined beginning in the 1980s, to determine how money markets could best function to foster competitiveness within freshly “open economies” and within the framework shaped by the third industrial revolution.

There was an apparent convergent evolution between changes in the economy (third industrial revolution, globalization) and changes in the money and banking industries. The 2007-2010 crisis seems to challenge such a mindset: was the universal banking model a mere fashion trend, or

¹ See Patrick Fridenson, “La circulation internationale des modes managériales,” in *L'invention de la gestion: Histoires et pratiques*, ed. Jean-Philippe Bouilloud and Bernard-Pierre Lécuyer (Paris, 1994), 81-89; Eric Abrahamson and Gregory Fairchild, “Management Fashions: Life Cycles, Triggers, and Collective Learning Processing,” *Administrative Science Quarterly* 44 (Dec. 1999): 708-40.

² See Abhijit Banerjee, “A Simple Model of Herd Behaviour,” *Quarterly Journal of Economics* 107 (Aug. 1992): 797-817; Sushil Bikhchandani, David Hirshleifer, and Ivo Welch, “A Theory of Fads, Fashions, Customs, and Cultural Change as Informational Cascades,” *Journal of Political Economy* 100 (Oct. 1992): 992-1026.

a renewed attempt to promote past fashions that banking and banking history seemed to have rejected? Or was universal banking the key to economic power, with even a “cost of rejecting universal banking”?³

We seek to refresh memories about past fashionable trends concerning universal banking models to determine why, at specific moments in economic history, the universal banking model was praised as a force to accelerate the course and scope of growth. We outline the following fashion trends, well known among banking historians: Saint-Simonian schemes in the mid-nineteenth century and the *Crédit mobilier* scheme; the German *Hausbank*, or mixed banking model; the rejection of universal banking and of mixed banking models; the rebuilding of a model of universal banking in the 1960s-1980s; and the issue of universal banking in the 1990s-2000s.

Briefly, we can reiterate (although they are a commonplace among banking historians) the recurrent rationales for the universal banking model: first, it was mobilized to combat backwardness (within the context of the “Gerschenkron path”); second, to supply industry with greater and longer-term financing to accelerate growth—that is, overall to mobilize “sleeping funds” (hoarded, liquid, or savings) in to support the growth of industry and services growth, to accelerate economic history.⁴

We must first define what we mean by universal banking. We do not consider the mere shift of commercial banking toward diversified mergers in retail, corporate, or investment banking, where each bank was enriched with a broad portfolio of activities dedicated to exploiting every segment of customer deposits. What we mean by universal banking is the overlap between retail and corporate banking, on one hand, and investment banking on the other—that is, the convergence of lending activities and the management of payment type on one side, and issuing securities, underwriting and brokerage activities, and structured finance (long-term lending, financial engineering, project financing) on the other. The “universal banking fashion” took hold when stakeholders (public authorities, experts, utopians, and so on) presumed that the second group of constituents had to be mobilized more intensively to securitize companies’ financing and a country’s basic equipment, and to accelerate reshaping the economy (domestically or abroad).

³ Charles Calomiris, “The Costs of Rejecting Universal Banking: American Finance in the German Mirror, 1870-1914,” in *Coordination and Information: Historical Perspectives on the Organization of Enterprise*, ed. Naomi Lamoreaux and Daniel M. G. Raff (Chicago, Ill., 1995), 257-315.

⁴ Douglas Forsyth and Daniel Verdier, eds., *The Origins of National Financial Systems: Alexander Gerschenkron Reconsidered* (London, 2003); and Daniel Verdier, *Moving Money: Banking and Finance in the Industrialized World* (Cambridge, England, 2002).

In fact, the issue is: what is a bank?⁵ There are new reflections on this old issue. The Royal Bank of Scotland (RBC) listed its activities in a 2009 ad: “Capital markets, banking, wealth management, insurance.”⁶ This leaves open the question about how RBC perceives itself as a bank: it practices “banking,” but also two or three other activities classically linked with banking. Banks’ advertisements show that forms of universal banking are only extensions of their core profession to more highly developed, enriched, and “intensified” services. Offering insurance, wealth management/private banking, cards management, consumer and housing credit, and mutual funds are mere extensions of retail banking; they are new skill portfolios, but within the same framework as commercial banking, without a revolution in the nature of their economic function, satisfying layers of clients—individual, professional, and small and medium-sized enterprises (SMEs).

The same is true of the new fields of structured finance, the public finance industry, international underwriting—in the City, then on the Euromarket, last on the international finance market, international merger and acquisitions engineering and financing, and even the very recent “securitizing” processes (collateralized debt obligations [CDOs], and so forth), which are mere extensions of corporate banking and of merchant and investment banking under a “general/universal” umbrella. The formulation of assets management, beginning in the 1960s, was also an extension of the management of “private” and informal funds in the name of institutional investors (such as insurance companies and retirement funds) and large-scale fortunes, which had been practiced either by commercial banks (the division of “*la Haute Banque*” at Crédit lyonnais, for instance, until World War II) or by investment banks (French or Belgian *banque d'affaires*, for example), in competition with *Privat Banken*, *banques privées*, and other kinds of “niche banking.” What had changed was the revolutionary size of the activity, the trivialization of mutual funds in the United States and all over Europe and Japan, and the autonomy reached in practice because of regulation by the institutions tackling assets management (for example, the Société générale Assets Management [SGAM]).

What is new or “fashionable” is that specialized banks gathered (more or less durably, until a crash) the whole range of activities under a single roof and thus became “universal,” all the more so when they acted internationally. Fragility arose from bankers’ inability to grapple with such

⁵ See Frederic Mishkin et al., *Monnaie, banque et marchés financiers*, 7th ed. (Paris, 2004); and Robert Litan, *What Should Banks Do?* (Washington, D.C., 1987).

⁶ Ad published in *The Economist* (25 April 2009), 19; URL: <http://www.rbc.com/moveforward>.

a broad range of strategic activities, essentially because of bad risk management. That raised another issue, intimately linked with the main one: What is unmanageable? Each big crash highlighted this question, paving the way to the fashion of regulating against universal banking from the 1930s through the 1960s. The recent crisis showed what was ultimately at stake: the ability of universal banking adepts to identify counterparts in the liabilities column of the balance sheet (treasury resources, refinancing lines, or permanent funds) to face the multiplied risk on the availabilities lines; the further the extension of universal banking, the greater the prevalence of conglomerate banking, and the more financial buttressing required.

Sensitivity to such an issue explains the instability and cyclical nature of universal banking fashions. Bankers active in mid- and long-term commitments were supposed to be able to identify counterparts or collateral to maintain a relatively solid and reliable balance sheet; this raised the issue of the degree of “mix,” which became “fashionable” when the general opinion (among experts, in fact) was that short-term resources had to be “transformed” into mid- and long-term assets. That was the key “fashion” indeed, stimulated by impatience and, to some degree, by the spirit of enterprise, leading actors to some complacency about the elevation of risks endured by “universalized” banks. Such pressure exerted on balance sheets increased the chances of “systemic risk.”

“Fever” or “manias” of impatience vis-à-vis the banking community, from the business community, the state authorities or “enlightened” opinion, advocated in favor of universal banking. This trend was linked to expectations that bankers would be more “path-breaking,” more assertive, more inflationary through their portfolios of durable credits (overdrafts, middle-term credits to exports) and through their involvement in long-term loans and even equity participation, pending brokering securities all along the investors’ chain. Universal banking fashion cannot fail to raise concerns about “liquidity” and the ability of a banking system based on universal banking to refinance itself. This explains the boiling arguments among historians and economists about the risks of universal banking, with the risk of looking “conservative-minded.”

Our analysis stems from our research into investment-banking history. Fashions regularly called for a mixed type of banking, joining deposit and commercial banking, and corporate and investment banking within a single organization, which would face another strategy focused on specialized investment banks, *maisons* or *boutiques*. Our approach remains an empirical one. We talk of “fashion” without measuring the frequency of quotations through formalized figures. We assess the perception of fashion through informal “clouds” of opinion, from governments, publicists, economists, theoreticians of their time, and so forth. We partly reconstitute arguments and the opinions of business and political elites using past literature. Our sources include academic journals, banks’ archives, government archives, experts’ reports, and

business magazines and newspapers, which will favor comparisons among countries and banking systems.

A Crédit mobilier Fashion, 1820s-1890s

Saint-Simonian theories called for a new banking model, which formed the basis for a “fashion” toward “modern” banking inspired by the British model and arguments about France’s backwardness.⁷ Banks had to mobilize hoarded money, to lure savers through trust and services, either by collecting deposits or by brokering issued securities.⁸ They had to practice “banking industry” (midterm overdrafts, credits on collaterals, or warrants on inventories), as was supposed to have been achieved in England. Historians Lucy Newton, Mark Casson, Philip Cottrell, and others have proved that that was the case.⁹ Banks had to become players in the financial market, beyond the predominant state or municipal bonds. Utilities and metal industries were thirsting for equity. Successive “manias” pushed balancing country real estate, city property, luxury goods, or hoarded cash by investing in securities.

The syndrome of French backwardness compared with the British (and also the Belgian) industrial revolution fostered hot arguments among Saint-Simonian theoreticians, but also among enlightened civil servants in charge of finance and trade and among chambers of commerce (with their numerous “petitions” to the state demanding ever more investment sources, mainly for utilities). All these concerns focused on the “*révolution du crédit*,” which was then understood as transferring an imagined “universal banking model” from the United Kingdom or from Brussels (for example, the Société générale de Belgique, and the Banque de Bruxelles).¹⁰ Beyond theory, the banker Jacques Laffite tried to set up a “modern” universal banking model through a succession of banks, all of which failed

⁷ Bertrand Gille, “Les saint-simoniens et le credit,” in *La banque et le crédit en France au XIX^e siècle*, ed. Bertrand Gille (Geneva, 1961).

⁸ Pierre-Cyrille Hautcoeur, “Chapitre 7: De nouvelles institutions bancaires,” in *Le marché financier au XIX^e siècle*, 1: *Récit*, ed. Pierre-Cyrille Hautcoeur (Paris, 2007), 251-72.

⁹ Michael Collins, *Banks and Industrial Finance in Britain, 1800-1939* (London, 1991); Andrew Godley and Duncan Ross, eds., *Banks, Networks and Small Firm Finance* (London, 1996); and Philip Cottrell, *Industrial Finance, 1830-1914: The Finance and Organization of English Manufacturing Industry* (London, 1979).

¹⁰ Herman van der Wee and Monique Verbreyt, *La Générale de banque: Un défi permanent, 1822-1997* (Brussels, 1997); René Brion and Jean-Louis Moreau, *La Société générale de Belgique, 1822-1997* (Anvers, 1998).

because of the discrepancies on their balance sheet between midterm undertakings and volatile resources.¹¹

The main result was that the French “Crédit mobilier” of the Péreire brothers was praised as a leverage force in the first industrial revolution throughout Europe.¹² It fuelled arguments and foundations in France itself, but was also used throughout Europe as a hallmark of the banking revolution that took off in the second half of the century, mainly in Spain (Crédit mobilier espagnol), Italy, and the Danubian area, where “Crédit mobilier” banking became “fashionable.” In France (after the 1860s through 1880s misfires), along with the British model, explicit or pragmatic rules of liquidity prevailed. The failure of the Péreire’s Crédit mobilier (which collapsed in 1867) does not condemn the universal banking model.

Several historians have examined the arguments among business and banking elites about the universal banking model. Diversification and risk-taking first generally prevailed in the “new banks.”¹³ They mixed commercial and deposit banking on one side, and investment banking on the other, because of direct investments in new companies (such as railways, metal, and shipping), of involvement in trade financing (such as Société générale and guano, and Comptoir d’escompte and copper), and a thick portfolio of durable credits (two- or three-year overdrafts, often with a few sponsored corporate clients, and thus an insufficient division of risks), and of financial assets.¹⁴ The universal banking model, more or less with the support of the Banque de France, spurring the extension of the French money market, was practiced by the young Comptoir d’escompte de Paris, linked with “financiers,” by the early Crédit lyonnais and Société générale and, on a smaller scale, by Crédit du Nord; manias fostered a few

¹¹ Hubert Bonin, “Jacques Laffitte, banquier d’affaires sans créer de modèle de banque d’affaires,” in *Le banquier Jacques Laffitte, 1767-1844*, ed. Jacques Marec (Maisons-Laffitte, 2008), 57-78; Maurice Brun, *Le banquier Laffitte, 1767-1844* (Abbeville, 1997).

¹² Bertrand Gille, “La fondation du Crédit mobilier et les idées financières des frères Pereire,” in *La banque en France au XIX^e siècle*, ed. Bertrand Gille (Geneva, 1970), 125-43; Elisabeth Paulet, *The Role of Banks in Monitoring Firms: The Case of the Crédit Mobilier* (London, 1999 and 2003); Elisabeth Paulet, “Financing Industry: The Crédit mobilier in France, 1860-1875,” *Journal of European Economic History* 31, no. 1 (2002): 89-112; Jean Autin, *Les frères Pereire: Le bonheur d’entreprendre* (Paris, 1984).

¹³ David Landes, “Vieille banque et banque nouvelle : la révolution financière du dix-neuvième siècle,” *Revue d’histoire moderne* 3 (July-Sept. 1956): 204-22.

¹⁴ Bertrand Gille, “Un épisode de l’histoire des métaux : le krach des cuivres,” *Revue d’histoire de la sidérurgie* 9, no. 1 (1968); Robert Hentsch, *Hentsch: Banquiers à Genève et à Paris au XIX^e siècle* (Paris, 1996).

other “big” banks, which were swallowed by crashes (such as the Banque de l’Union générale in 1882).¹⁵ Even a few merchant banks of the *Haute Banque* elite did not remain static.¹⁶ They added to trade, forex (foreign exchange) finance, and wealth management a few universal-banking behaviors such as engineering and co-investing in a few “structured projects” (railways, mining, and so forth).

The disappointments caused by the universal banking model put a halt to this fashion. Several historians have recounted the severe losses (in credits or investments) incurred by banks engaged in universal banking, exacerbated by the bursts of recession caused by the Great Depression (in France, in 1882-1895). Long after Crédit mobilier in 1867, Union générale met its demise in 1882. Société générale had to dismiss its chairman in 1886; Comptoir d’escompte de Paris collapsed in 1889. Several regional “modern” banks endured such severe crises that they had to strip bad lines off their balance sheet (Crédit du Nord, notably).

The universal banking fashion lost momentum in favor of what became known as the “*doctrine Henri Germain*,” after the chair of Crédit lyonnais from 1863 to 1905. Banks drew strategic and managerial lessons from the crisis his bank faced: henceforth liquidity had to prevail, and successful *grands établissements de Paris* (big banks) rallied to this principle, which Crédit industriel et commercial (CIC) had already

¹⁵ Alain Plessis, *La politique de la Banque de France sous le Second Empire* (Geneva, 1985); Alain Plessis, “The Banque de France and the Emergence of a National Financial Market in France during the Nineteenth Century,” in *Centres and Peripheries in Banking: The Historical Developments of Financial Markets*, ed. Philip Cottrell, Even Lange, and Ulf Olsson (London, 2007), 143-60; Alain Plessis, “La révolution de l’escompte dans la France du XIX^e siècle,” *Revue d’histoire du XIX^e siècle* 23 (2001/2): 143-63; Nicolas Stoskopf, “Alphonse Pinard et la révolution bancaire du Second Empire,” *Histoire, économie & société* 2 (April-June 1998): 299-317.; Nicolas Stoskopf, “La fondation du Comptoir national d’escompte de Paris, banque révolutionnaire (1848),” *Histoire, économie & société* 3 (Sept. 2002): 105-21; Bernard Desjardins et al., *Le Crédit lyonnais, 1863-1986: Études historiques* (Geneva, 2002); and Jean Bouvier, *Le Crédit lyonnais (1863-1882): Naissance d’une grande banque* (Paris, 1961; 1968; 1999); Gille, “La formation de la Société générale”; Bertrand Gille, “Les premières années de la Société générale (1864-1870),” in *La banque en France au XIX^e siècle*, ed. Gille, 144-206, 207-66; Hubert Bonin, *Histoire de la Société générale, I: 1864-1890: Naissance d’une banque* (Geneva, 2006); Hubert Bonin, *Histoire de banques: Crédit du Nord, 1848-2003* (Paris, 1998 and 2004); and Jean Bouvier, *Le krach de l’Union générale (1878-1885)* (Paris, 1960).

¹⁶ Bertrand Gille, *Histoire de la maison Rothschild (1817-1870)* (Geneva, 1965 and 1967); Jean Bouvier, *Les Rothschild* (Paris, 1967; 2d ed., Brussels, 1985).

advanced.¹⁷ The successor of Comptoir d'escompte de Paris, Comptoir national d'escompte de Paris (CNEP), also promoted extreme liquidity rules.

Such a focus on deposit and commercial banking based on liquidity explains the dualism set up within the Paris banking system, with *banques de dépôts* (privileging discount and short-term overdrafts, brokerage of securities, trade financing, and forex operations) and *banques d'affaires* (including investment banks, such as Paribas, Rothschild, Banque de l'union parisienne, and several *maisons de Haute Banque*).¹⁸ The state (in 1857 and again in 1895) directed *Caisses d'épargne* (four hundred local savings banks) to avoid lending and to channel savings to *Caisse des dépôts et consignations*, which were charged solely with investing these assets in the financial market (mainly state bonds).¹⁹ The universal banking model vanished from Paris during the 1880s and 1890s.

From the 1860s through the 1890s on (until the 1980s, in fact), the Paris banking market could be perceived as static and stable, without waves of "fashion." For deposit banks, the profits from their activities (banking and "services rendered") represented a much higher percentage of the total. This was true because of differences in their fundamental tenets, as well as in their organization and client research.

With respect to basic doctrine, deposit bank operations focused on immediate outcomes, while investment banks accepted some amount of middle and long-term illiquidity in financial assets. Regarding organization: deposit banks had a large number of branch offices and customer counters, with an extremely large and varied client base. Although big investments by large corporations were important, the smaller but more numerous savings accounts played a significant role in the functioning of deposit banks. This was very different from investment banks, which generally did not pursue smaller, individual savings account holders; they might not even have the means to do so. The surplus funds that some companies deposited allowed investment banks to cover the needs of their other clients.

These differences in doctrine and organization were associated with differences in practical outcomes. Investment banks had less power, but more flexibility: a larger proportion of their operations occurred in the mid-term, and the bank more often accepted the total risk. Financially,

¹⁷ See Nicolas Stoskopf, *150 ans du CIC, 1859-2009, I: Une audace bien tempérée* (Paris, 2009), and Stoskopf, *150 ans du CIC, 1859-2009, II: Un album de famille* (Paris, 2009).

¹⁸ Éric Bussière, *Paribas, l'Europe et le monde, 1872-1992* (Anvers, 1992); and Hubert Bonin, *La Banque de l'union parisienne: Histoire de la deuxième banque d'affaires française (1874/1904-1974)* (Paris, 2001).

¹⁹ Daniel Duet, *Les Caisses d'épargne* (Paris, 1991; rev.ed., 2000).

they accepted immobilizations and, especially, equity participation, which the deposit banks totally avoided. Although investment and deposit banks were competitors, they very often supplied clients to each other because of the differences in their activities. This was true for bond issues, which were primarily negotiated and guaranteed by investment banks, while deposit banks determined the bonds' placement, because of their close ties with customers with money to invest. The investment banks guaranteed more shares than the deposit banks, which concentrated more on counter transactions.

Fashion Trends Favoring the German *Hausbank* Model, Regional Banking, or a Mixed Banking Model

Another circle of "enlightened" elites contested this perennial dual structure. Throughout the region ("*la province*"), a surge of discontent against "*les grands établissements de Paris*" took shape during the first three decades of the twentieth century. Paris banks were accused of favoring international expansion over support of the domestic economy.²⁰ Small and medium-sized enterprises urgently needed to adapt to the second industrial revolution (with electrification, and so forth).²¹ In the provinces and in the Paris suburbs (where they were numerous), start-ups felt the need to secure new forms of financing (for example, more durable credit) to finance inventories, more machinery, more commercial networks, and expansion abroad.²² Even deposit banks had to propose some kinds of mid-term credits through specialized affiliates.²³

One concern overshadowed mere economic considerations: the competitiveness of France with Germany was at stake. Before World War I, French elites were astonished by Germany's rapid ascension and

²⁰ Lysis, *Contre l'oligarchie financière en France*, rev.ed. (Paris, 1911) (with notably articles published by *La Revue financière*, 15 Dec. 1906, 1 and 15 Feb. 1907). See Patrick Éveno, "L'image du Crédit lyonnais à travers la presse française," in *Le Crédit lyonnais, 1863-1986*, ed. Desjardins et al., 833-50.

²¹ Michel Lescure, *PME et croissance économique: L'expérience française des années 1920* (Paris, 1996).

²² Hubert Bonin, *Les banques françaises dans l'entre-deux-guerres*, vol. 2: *Les banques & les entreprises en France dans l'entre-deux-guerres (1919-1935)* (Paris, 2000).

²³ Hubert Bonin, " 'Blue Angels,' 'Venture Capital,' and 'Whales': Networks Financing the Take-off of the Second Industrial Revolution in France (1890s-1920s)," *Business and Economic History On-Line* 2 (2004) URL: <http://www.thebhc.org/BEH/04/bonin.pdf>; Hubert Bonin, "Banque et création d'entreprise dans la France des XIX^e et XX^e siècles," in *Créateurs et création d'entreprises de la Révolution industrielle à nos jours*, ed. Jacques Marseille (Paris, 2000), 115-37.

financial power.²⁴ Their effects on Germany's military power concerned them, and after World War I France rushed to compete with the renewed Germany. What was perceived as the "German model" of *Hausbank* and of industrial banking—whatever the reality—was increasingly praised, and when German businesses seemed to be better financed than the French, a "mania" demanded that French banks be more committed to their business constituents and practice "*banque à l'allemande*."²⁵ Numerous elites asserted that "regional banking" promoted a relationship of proximity, embeddedness, and trust. A special parliamentary commission in the 1910s paved the way, through a 1917 law, for "popular banks" (like *Volksbanken*) dedicated to small enterprises and professionals.²⁶

The "mixed banking" model regained momentum, reaching an apex in the 1920s. Banque nationale de crédit, Banque des Pays du Nord, Crédit commercial de France, Banque d'Alsace-Lorraine, Banque Adam, and

²⁴ Raymond Poidevin, "La puissance financière de l'Allemagne, 1890-1914," *Relations internationales* 29 (Spring 1982): 33-64.

²⁵ Carsten Burhop, *Die Kreditbanken in der Gründerzeit* (Bern, 2004); Caroline Fohlin, "Universal Banking in Pre-World War I Germany: Model and Myth," *Explorations in Economic History* 36 (Oct. 1999): 305-43; Ranald Michie, "Banks and Securities Markets, 1870-1914," in *The Origins of National Financial Systems*, ed. Forsyth and Verdier, 43-63; and see Henri Hauser, *Les méthodes allemandes d'expansion économique*, 3d ed. (Paris, 1916); Georges Dernis, *La renaissance du crédit allemand* (Paris, 1927); and Hubert Bonin, "Les relations bancaires franco-allemandes (1900-1970): admiration, guerre économique et coopération de voisinage," in *Les relations franco-allemandes de 1871 à nos jours*, ed. Jean-François Eck, Stefan Martens, and Sylvain Schirmann (Paris, 2009), 357-83.

²⁶ Hubert Bonin, "Les banques régionales et l'industrie française (de 1920 à nos jours): Essai de problématique," in *Les banques en Europe de l'Ouest de 1920 à nos jours*, ed. Maurice Lévy-Leboyer (Paris, 1995), 201-22; Hubert Bonin and Christophe Lastécouères, eds., *Les banques du grand Sud-Ouest: Système bancaire et gestion des risques (des années 1900 à nos jours)* (Paris, 2006); Hubert Bonin, "Vieille banque et nouvelle banque : les banques bordelaises au tournant du XX^e siècle," in *Banques locales et banques régionales en France au XIX^e siècle*, ed. Michel Lescure and Alain Plessis (Paris, 1999), 237-73; Hubert Bonin, "The Demand for Banking Deconcentration in France, 1900-1997: A Recurrent Endeavour to Alleviate Big Banks' Hegemony," in *A Century of Banking Consolidation in Europe: The History and Archives of Mergers and Acquisitions*, ed. Manfred Pohl, Teresa Tortella, and Herman Van der Wee (Aldershot, 2001), 213-35; *Les banques françaises dans l'entre-deux-guerres*, vol. 1: *L'apogée de l'économie bancaire libérale française (1919-1935)* (Paris, 2000); Élisabeth Albert, *Les Banques populaires en France (1917-1973)* (Paris, 1997); Élisabeth Albert, *Les Banques populaires en France, 1878-2009, 130 ans de coopération* (Paris, 2008); and Félix Torres, ed., *Caisse centrale des Banques populaires, 1921-1996: 75 ans d'histoire* (Paris, 1996).

Banque Oustric, for example, all promoted and practiced new types of banking.²⁷ Universal banks, balancing deposit and commercial banking, and “industrial” or even “investment” banking were urged in support of a more committed lending practice. Britain was not exempt from arguments about banks’ ability to finance industry or about regional banking, but one could imagine that a genuine “fashion” of reintroducing the universal banking model grew stronger in France during the 1900s and 1920s.²⁸

A regional layer of experts, bankers, and business people pleaded in favor of “*banques régionales*.”²⁹ They wanted to extend the practice of overdrafts, complacent collateralized credits, as well as the issuing and brokering of shares of mid-sized enterprises (including those that were family-owned) within a network of wealthy local investors mobilized by bankers. The expansion of the practice of corporate banking would place regional bankers on a par with deposit and commercial bankers and local investment bankers.³⁰ This fashion spread throughout the country. In some places, the “*banque à l’allemande*” was praised.³¹ More commonly,

²⁷ Hubert Bonin, *La Banque nationale de crédit: Histoire de la quatrième banque de dépôts française en 1913-1932* (Paris, 2002); Jean-Pierre Daviet and Michel Germain, *CCF, 1894-1994: Crédit commercial de France, une banque dans le siècle* (Paris, 1994); and Hubert Bonin, “Oustric, un financier prédateur? (1914-1930),” *Revue historique* 295 (Oct. 1996): 429-48.

²⁸ For industry financing, see Michael Collins and Mae Baker, “Sectoral Differences in English Bank Asset Structures and the Impact of Mergers, 1860-1913,” *Business History* 43 (Oct. 2001): 1-28; Michael Collins and Mae Baker, “English commercial bank liquidity, 1860-1913,” *Accounting, Business & Financial History* 11 (July 2001): 171-91; Andrew Godley and Duncan Ross, eds., *Banks, Networks and Small Firm Finance* (London, 1996); and Michael Collins, *Banks and Industrial Finance in Britain, 1800-1939* (Cambridge, Mass., 1996). For regional banking, see Francesca Carnevali, “Les banques régionales en Angleterre au XX^e siècle,” in *Banques locales et banques régionales en Europe au XX^e siècle*, ed. Michel Lescure and Alain Plessis (Paris, 2004).

²⁹ Lescure and Plessis, eds., *Banques locales et banques régionales . . . au XX^e siècle*.

³⁰ Hubert Bonin, “Les mutations des banques du Sud-Est dans l’entre-deux-guerres (1919-1935),” *Cahiers d’histoire* 41 (3//1996): 343-80; Hubert Bonin, “Les banques rhône-alpines aux XIX^e et XX^e siècles,” in *Région Rhône-Alpes, 500 années-lumière: Mémoire industrielle*, ed. Yves Lequin (Paris, 1991), 332-89; Hubert Bonin, “Les banquiers grenoblois des années 1890-1940 : un modèle spécifique?” in *Des barrages, des usines et des homes: L’industrialisation des Alpes du Nord entre ressources locales et apports extérieurs: Études offertes au professeur Henri Morsel*, ed. Hervé Joly et al. (Grenoble, 2002), 185-209.

³¹ Christophe Lastécouères, “L’émergence des banques à l’allemande en Aquitaine dans les années 1930 : un anachronisme?” in Lescure and Plessis, eds., *Banques locales et banques régionales . . . au XX^e siècle*, 333-66; Christophe

mixed banking, sometimes within the framework of something like “pre-industrial districts,” confirmed that such forms of universal banking were in fashion.³²

What was an investment bank’s scope of operations? Clearly Paribas and Banque de l’union parisienne (BUP) extended their activities throughout Europe.³³ They were competing to develop their business in Central Europe, and along with Rothschild and Mirabaud, were also involved in serving the colonial empire.³⁴ However, not all of them (including Banque des pays du Nord, and a few *maisons de Haute Banque*) abandoned the domestic market for capital finance; they were not “old-fashioned” or “obsolete.” Indeed, they continued to contribute to the

Lastécouères, *Les feux de la banque : oligarchie et pouvoir financier dans le Sud-Ouest, 1848-1941* (Paris, 2006); Christophe Lastécouères, “Le financement bancaire d’une économie régionale: le cas du Sud-Ouest (1880-1914),” in *Politiques et pratiques des banques d’émission en Europe (XVII^e-XX^e siècles): Le bicentenaire de la Banque de France dans la perspective de l’identité monétaire européenne*, ed. Olivier Feiertag and Michel Margairaz (Paris, 2003), 223-45; Jean-Pierre Allinne, *Banque Pouyanne (1903-2003): Histoires d’entrepreneurs* (Orthez, 2003).

³² Michel Lescure, “Entre ville et campagne, l’organisation bancaire des districts industriels : l’exemple du Choletais, 1900-1950,” in *Villes et districts industriels en Europe (XVII^e-XX^e siècles)*, ed. Jean-François Eck and Michel Lescure (Tours, 2002), 81-104.

³³ Bussière, *Paribas*; Éric Bussière, *La France, la Belgique et l’organisation économique de l’Europe, 1918-1935* (Paris, 1992); Éric Bussière, *Horace Finaly, banquier, 1871-1945* (Paris, 1996); Éric Bussière, “Paribas et le financement des affaires d’électricité dans les années 1920 : entre stratégie bancaire et stratégie de groupe industriel,” in *Stratégies, gestion, management: Les compagnies électriques et leurs patrons, 1895-1945*, ed. Dominique Barjot, Henri Morsel, and Sophie Coeuré (Paris, 2001), 153-62; Éric Bussière, “Paribas and the Rationalization of the French Electricity Industry, 1900-1930,” in *Management and Business in Britain and France: The Age of the Corporate Economy*, ed. Youssef Cassis, François Crouzet, and Terry Gourvish (Oxford, England, 1995), 204-13; Éric Bussière, “La France et les affaires pétrolières au lendemain de la Première Guerre mondiale: La politique des groupes financiers à travers celle de la Banque de l’union parisienne,” *Histoire, Économie, Société* 2 (1/2 1982): 313-28; Éric Bussière, “La Banque de l’union parisienne et l’existence d’un courant national dans les milieux pétroliers français dans l’entre-deux-guerres,” *Relations internationales* 43 (Fall 1985): 305-22; and Hubert Bonin, *La Banque de l’union parisienne* (Paris, 2001).

³⁴ Alain Plessis, “Une maison de la Haute Banque parisienne: les Mirabaud et le financement des entreprises de la fin du XIX^e siècle à la Seconde Guerre mondiale,” in *Banques et entreprises industrielles en Europe de l’Ouest, XIX^e-XX^e siècles*, ed. Philippe Marguerat, Laurent Tissot, and Yves Froidevaux (Geneva, 2000), 239-50.

competitiveness of Paris as a center of capital. Their lead managers' key functions were still issuing and underwriting operations. They mobilized their own networks among institutional investors and through their own private banking divisions, or through their traditional partnership with deposit banks, to extend the brokerage of public securities and, increasingly, packs of private equity (domestic or foreign).³⁵

In fact, Lazard and Banque de l'union parisienne profited from the universal banking fashion for "regional banks," because they attracted several of them as their "correspondents" in Paris for forex or refinancing operations. Éric Bussière's studies of Paribas and mine of BUP have noted that investment banks expanded their deposits as they needed more short-term (yet stable) resources to finance their own range of corporate banking activities (mainly overdrafts). They lured available treasury amounts from insurance companies or large firms, greatly increasing their liquidity on the liability side (for example, during the interwar period), providing them with something of a universal banking profile.

The Fashion of Rejecting Universal and Mixed Banking Models, 1930s-1960s

Ultimately, the fashion for universal banking models crumbled, whatever path they followed (regional banking, mixed banking, or investment banks as deposit banks). Practitioners of universal banking had already forgotten the rules of balancing their balance sheets and the demand that there be durable counterparts for durable risks. Either the inter-banking market dried up, or there were massive withdrawals of deposits. As more banks engaged in universal banking, more failed (for example, Banque nationale de credit and several large regional banks) or were on the brink of collapse (Banque de l'union parisienne). Emotionally and intellectually, such a crash shook confidence in universal banking. Beyond the rescue organized by Banque de France and the Ministry of Finance, it appeared clear that the most liquid banks (such as Crédit lyonnais, CNEP, CIC, Société générale, and Crédit du Nord) had fared best during the crisis; and some of them even took charge of collapsed banks (mainly CIC, with several big regional banks being split between its regional affiliates; and Crédit du Nord, absorbing Banque générale du Nord).

Because of the crash, the rush to liquidity became the rule and fostered a trend away from universal banking. Sticking to "liberal" conceptions of the banking market, authorities first supported a self-

³⁵ Youssef Cassis, *Capitals of Capital: A History of International Financial Centers, 1780-2005* (Cambridge, England, 2006); and Hubert Bonin, "The Challenged Competitiveness of the Paris Banking and Finance Markets, 1914-1958," in *London and Paris as International Financial Centres in the Twentieth Century*, ed. Youssef Cassis and Éric Bussière (Oxford, England, 2005), 183-204.

regulating and self-reorganizing evolution of the banking system, before establishing far-reaching laws in 1941 and 1945-1946.³⁶ “Specialization” became the motto, even though France at first resisted the model set by several countries that passed laws forbidding universal banking. After World War II until the mid-1980s, specialization and specialized credits were promoted as the sole way to supply stability and support to the various layers of the economy. From 1977 through 1986, leftists assumed that this fashion worked against big business and big banks, whether nationalized or not. Even the leftists campaigned hard in 1981 to reinforce the “specialization of credit,” in order to prop up lending to SMEs. These more assertive and proactive regional banks (refinanced by reformed Banque de France) and specialized Paris banks were perceived as being able to save the French economy from the general crisis during this time.

France therefore joined the global trend in favor of specialization. Opposition to universal banking had become a “fashion,” from laws in Switzerland and Belgium to the 1933 Glass-Steagall Act in the United States.³⁷ The segmentation of credit into short-term (deposit commercial banks) and mid- and/or long-term forms (special half-public institutions such as Crédit national, Crédit foncier, Banque française du commerce extérieur, Crédit agricole) oriented commercial banks toward discounts and overdrafts.³⁸ A few investment banks (Paribas; *Banque de l'union parisienne*, which absorbed Mirabaud in 1953; Rothschild; Lazard, joined by junior competitors Banque de l'union européenne and Banque de l'Indochine, then by Banque de Suez & de l'Union des mines, followed by Indosuez) were to refocus on capital markets and supply credit to big business, to reinforce merchant banking (and the rationalization of the French productive system), and to assume the mission of accompanying big firms abroad (and, for a time, within the colonial empire).³⁹

³⁶ Claire Andrieu, *La banque sous l'Occupation: Paradoxes de l'histoire d'une profession, 1936-1946* (Paris, 1990); and Claire Andrieu, “Les banques, par fidélité au programme du Conseil national de la Résistance,” in *Les nationalisations de la Libération: De l'utopie au compromis*, ed. Claire Andrieu, Lucette Le Van-Lemesle, and Antoine Prost (Paris, 1987), 313-26.

³⁷ G. J. Benston, *The Separation of Commercial and Investment Banking* (London, 1990); and Vincent Carosso “Washington and Wall Street: The New Deal and Investment Bankers, 1933-1940,” *Business History Review* 64 (Winter 1970): 425-45.

³⁸ Patrick Beaubeau, Arnaud Lavit d'Hautefort, and Michel Lescure, *Le Crédit national: Histoire publique d'une société privée, 1919-1994* (Paris, 1994); and André Gueslin, *Le Crédit agricole* (Paris, 1985).

³⁹ Hubert Bonin, *Indosuez: L'autre grande banque d'affaires (1975-1987)* (Paris, 1987); and Hubert Bonin, *Suez: Du canal à la finance (1858-1987)* (Paris, 1987).

Fashion Trends: Toward the Triumph of Universal Banking, Mid-1960s–2009?

In France the “fashion” of universal banking apparently did not reappear for about half a century, and the success of the “Anglo-Saxon model” (in the United Kingdom and the United States) fostered faith in a well-established system of specialization. However, the demand that banks make a stronger commitment to growth, rather than engineering a way out of a great crisis, undermined the legitimacy of the banking system in existence since the 1930s and 1940s. Could universal banking be used once more to accelerate changes? It had been considered a factor in instability since the 1930s and 1940s, whereas specialization and regulation had fixed patterns that were able to determine stability levels and relevant circuits of liquidity.

From the end of the 1960s to the 2000s, universal banking increasingly appeared to be a better leverage in the long run for financial and credit stability, for liquidity, and for money circulation. “Pure” investment banking began to seem obsolete, because firms and market actors were to be prospected globally through an extensive menu of banking and financial services and products in a “one-stop shopping” model. Investment banks therefore began to question their business model, and they did so in France all the more because they had to bear the ruthless pressure of other contenders (primarily Merrill Lynch, Goldman Sachs, and Morgan Stanley), who rushed from New York to London and Paris, where they even recruited grandees from the French banking community. The touchstone issue was whether investment banks would adopt the universal banking model or disappear?

A transitional fashion: financial groups

From the 1950s through the 1970s, as in the United States during the 1980s and 1990s before the repeal of the Glass-Steagall Act, a discreet move toward some form of universal banking took shape: investment banks refinanced and godfathered new banks earmarked to provide “specialized credits” (housing and consumer credit, leasing, financing real estate).⁴⁰ These forms constituted outlets for investment banks’ oversized resources or their ability to get access to the financial market. Thus, the business model of “financial groups” (*groupes financiers*) emerged.⁴¹ Another proposed fashion trend was to transform commercial deposit banks into “mixed banks.”

⁴⁰ Cetelem, *De la 4CV à la vidéo, 1953-1983, ces trente années qui ont changé notre vie* (Paris, 1983); Jacques de Fouchier, *La banque et la vie* (Paris, 1989); and Catherine Malaval, *Sofinco, 1951-2001: Les 50 années qui ont changé la France* (Paris, 2001).

⁴¹ Hubert Bonin, *Les groupes financiers français* (Paris, 1995).

In France many reports suggested this path when planning got a new start under the Gaullists beginning in the mid-1960s. As a way for the state to liberalize its role in the planning and restructuring of the economy, banks, rather than the state and the treasury, had to take an increasing role in financing large firms.⁴² Reforms enacted from 1966 through 1968 allowed big banks to collect far more mid- and long-term resources, to finance broad mid- and long-term credits, to enlarge their participation in firms to comply with corporations' needs, and to serve as godfather to big firms' amalgamation, growth, and international development.⁴³

The State merged CNEP and the Banque Nationale pour le Commerce de l'Industrie (BNCI) into BNP (Banque nationale de Paris), reshuffled the teams at the head of state banks, and encouraged Suez and Paribas to take control of several banks in deposit and commercial banking, investment banking, specialized credits, and equity investing. It pushed the development of competitors, renewed Rothschild, Schneider (with Banque de l'union européenne), and Lazard (which itself supervised affiliates in specialized credits and equity investing). These activities led to a great deal of scholarly theorizing about such *groupes financiers*. They were supposed to be the best intermediaries between cash reserves and the needs of companies, and, with their teams of financiers and engineers, the best go-betweens to provide impetus for mergers and acquisitions. Foreign "models" from Germany (where universal banking was somewhat practiced by big banks) or Italy (because of Mediobanca "or else") were also cited to legitimize the "fashion."⁴⁴

Such financial groups stirred discontent among leftists, because their very success was perceived as a transfer of economic and financial power from the state (and its financial arms) to financiers and financial conglomerates ("*grand capital*").⁴⁵ Throughout the 1970s, *grand capital* was castigated by leftist experts (particularly the economist François Morin) and political parties.⁴⁶ This led to the nationalization of Suez,

⁴² Laure Quennouëlle-Corre, *La direction du Trésor, 1947-1967: L'État-banquier et la croissance* (Paris, 2000); Comité d'histoire économique et financière de la France (CHEFF), *Michel Debré, un réformateur aux finances, 1966-1968* (Paris, 2005).

⁴³ Pierre Coupaye, *Les banques françaises: Bilan d'une réforme (Notes & études documentaires, La Documentation française, nos. 4470-4771 (9 juin 1978).*

⁴⁴ Richard Deeg, "On the Development of Universal Banking in Germany," in *The Origins of National Financial Systems*, ed. Forsyth and Verdier, 87-104.

⁴⁵ See Hubert Bonin, *L'argent en France depuis 1880: Banquiers, financiers et épargnants dans la vie économique et politique* (Paris, 1989).

⁴⁶ François Morin, *La structure financière du capitalisme français* (Paris, 1975); Alain Alcouffe et al., *La banque et les groupes industriels à l'heure des nationalisations* (Paris, 1977); Patrick Allard et al., *Dictionnaire des groupes*

Paribas, Rothschild, and the *Banque de l'union européenne* by François Mitterrand's leftist majority in 1982. They halted the process to short-circuit the legal limitations on universal banking through the financial groups. The fashion of *groupes financiers* emerged, all the more because the public banks, followed by privatized groups, split their various activities and refocused on merchant banking (Rothschild, Lazard), investment and corporate banking (Paribas, until its merger with BNP in 2000), or even exited banking (Suez).⁴⁷

Universal banking conglomerates as a fashion (from the mid-1980s)

The great crisis of the mid-1970s to the mid-1990s, the transition from the second to the third industrial revolution, and the restructuring of the international division of labor enticed experts and the state to join the global trend toward “deregulation” of the banking system and to favor the universal banking model: the Glass-Steagall Act had become “old-fashioned.”⁴⁸ Even if French banks did not rush to London or New York to buy out merchant or investment banks (except small ones), they were stirred by the new universal banking “fashion,” all the more so because they were privatized between 1986 and 1999 and thus were more dependent on analysts' and markets' moods (and business fashions).⁴⁹ This followed another (ideological, but widely shared) fashion, that of “*moins d'État*,” the desire to decrease state interventionism after its apex in the first half of the 1980s, to “free” market forces, and to redefine (and support and finance) the strongholds of the French economy at the expense of obsolete industries.

industriels et financiers, en France (Paris, 1978); and Bertrand Bellon, *Le pouvoir financier et l'industrie en France* (Paris, 1980); and Jean Baumier, *La galaxie Paribas* (Paris, 1988).

⁴⁷ Félix Torres, *Banquiers d'avenir: Des comptoirs d'escompte à la naissance de BNP Paribas* (Paris, 2000); and Hubert Bonin, “Suez, de la finance aux services collectifs : analyse du redéploiement stratégique des années 1990,” in *Marché(s) & hiérarchie(s)* (Toulouse, 2000), 389-403.

⁴⁸ See Randall S. Kroszner and Raghuram G. Rajan, “Is the Glass-Steagall Act Justified? A Study of the US Experience with Universal Banking before 1933,” *American Economic Review* 84 (Sept. 1994): 810-32; Anthony Saunders and Ingo Walter, eds., *Universal Banking: Financial System Design Reconsidered* (New York, 1996); and Ingo Walter, ed., *Deregulating Wall Street: Commercial Bank Penetration of the Corporate Securities Market* (New York, 1985).

⁴⁹ Dominique Lacoue-Labarthe, *Les banques en France: Privatisation, restructuration, consolidation* (Paris, 2001); Dominique Plihon, *Les banques, nouveaux enjeux, nouvelles stratégies* (Paris, 1998); and Christian de Boissieu, ed., *Banking in France* (London, 1990).

Pragmatic leftists (under the Minister of Finance and Prime Minister Pierre Bérégovoy) first revolutionized the banking system through several laws during the mid-1980s.⁵⁰ Because the nationalizations did not provide miraculous solutions, the successive rightist and leftist majorities completed the universal banking revolution.⁵¹ These actions were intended to accelerate the modernization of the French economy and to avoid the “rust belt syndrome” (that is, the lost momentum against the “forces of the market” that had eliminated large segments of industry all over France and Western Europe).

The universal banking model was conceived as a powerful machine to raise funds and redistribute them alongside the optimal demands of firms, institutional investors, and investment funds (and households), as well as to achieve the “transformation” of money theorized by macroeconomists during the 1960s and 1970s. The competitiveness of Paris as an international financial center was also at stake in resisting the blitzkrieg of U.S. banks (Goldman Sachs, Morgan Stanley, and Merrill Lynch) that were reaping larger and larger bits of merchant and corporate banking.⁵² This was also true of Citicorp and GE (General Electric), which targeted individual customers, raising concerns about the ability of “non-universal banks” to remain as global players.⁵³

The universal banking fashion, deregulation, and the unbundling of the state-specialized banks led to a thorough rebuilding of banks as universal banks.⁵⁴ This was illustrated with when BNP out-bid Société générale for Paribas in 1999-2000, and Crédit agricole took control of the investment bank Indosuez and of several specialized credit firms (Sofinco and Finaref, creating Crédit agricole Consumer Finance in 2009 for personal finance), and of deposit and commercial bank Crédit lyonnais. The whole banking community (Société générale, BNP-Paribas, Crédit

⁵⁰ Benjamin Ménard, “La modernisation financière,” in *Pierre Bérégovoy: Une volonté de réforme au service de l'économie, 1984-1993*, ed. CHEFF (Paris, 1998), 59-128.

⁵¹ “L'industrie bancaire en France et dans l'Union européenne: structure et régulation,” in *Monnaie, banque et marchés financiers*, 7th ed., ed. Frederic Mishkin et al. (Paris, 2004), 341-82.

⁵² Richard Sylla, “US Banks and Europe,” in *European Banks and the American Challenge: Competition and Cooperation in International Banking under Bretton Woods*, ed. Stefano Battilossi and Youssef Cassis (Oxford, England, 2002), 53-67; and Edwin Perkins, *Wall Street to Main Street: Charles Merrill and Middle-Class Investors* (Cambridge, Mass., 1999).

⁵³ See Esther Jeffers and Olivier Pastré, *La TGBE: la très grande bagarre bancaire européenne* (Paris, 2005).

⁵⁴ Randall S. Kroszner, “The Motivations Behind Banking Reform: Why Do Lawmakers Pursue Deregulation?” *Regulation* 24 (Summer 2001): 36-41.

agricole, *Crédit mutuel*-CIC, Banques populaires-Caisses d'épargne, and a few small *Crédit mutuel* groups) had joined universal banking, along with merchant bankers Rothschild and Lazard.

However, in the twenty-first century, universal banking fashion is quite different from the older trends, and what is today called a “universal bank” mixes a large array of activities:

- Retail banks added insurance to credit and savings management, now comprising wealth management or private banking; classic credit was expanded to specialized (housing and consumer) credit.
- Commercial banks oriented toward business customers diversified from corporate banking to investment banking (equity issuing and underwriting, proprietary trading) and merchant banking (advising about, and achieving, mergers and acquisitions), which, to us, represents the key factor in diversifying commercial banking to universal banking.
- They expanded capital market banking by moving from proven (but already risky) forex trading and equity secondary markets (the classic “capital market”) toward broad “market banking” on their own (proprietary trading) or for investment funds.
- From classic management of asset lines for themselves or their customers (institutional investors such as insurance companies, or company treasurers, or wealthy individual investors; or mutual fund clients), banks set up a specialized industry to tackle what became (after the 1960s through the 1980s) a much broader range of activities: “assets management.” Some banks even took custody of equity for other banks as “custodians” with a range of specialized skills and rules.

There was increasing confusion during the 1990s and 2000s about what “universal banking” actually meant. The term was used to refer to “banking supermarkets” (for individual customers) and “finance industry” groups (grappling with the overall characteristics of the market, with every form of money, savings, and exchanges). The formula “*tout sous le même toit*” or “one-stop shopping” was designed to prevent customers from fueling competition between suppliers of finance and banking services.⁵⁵

⁵⁵ See the ad: “Divided into eight key business lines, the FBME Bank of Cyprus comprised:

- Corporate banking
- Personal banking
- Card services
- Credit facilities
- Foreign exchange trading facilities
- Trading finance

Firm managers could thus find in their “house bank” (to use the term “*Hausbank*,” which had prevailed in Germany) credit and insurance for their companies, the management of the treasury, factoring, specialized equipment credits, mutual funds for investment of employees’ funds (for retirement or in association with profits), structured finance for big investments, mergers and acquisitions management for external growth, and so forth. They could also pick up personal or family services for their own assets, inheritance operations, family equity ownership in the firm, and other individual services.

Thus, we can perceive a fashion trend in which the “business model” of “conglomerates of finance or banking,” parallels the pervasive model of conglomerates in industry—such as the “Jack Welch/GE model.”⁵⁶ “Universal banks” could develop every line of activity and tackle a broad portfolio of strategic activities. The universal banking fashion covers not only a single mix of deposit and commercial banking and of investment banking; it has been extended to encompass a broad portfolio, often duplicated abroad (mainly in Europe for French banks).⁵⁷

Once more, the universal banking fashion is questioned: Is it fashionable to question universal banking?

The early twenty-first century crisis led to a questioning of the universal banking fashion. Some denounced the rush to universal banking models, because the multi-tasking banks lacked a relevant skills portfolio and risk assessment processes. Even the repeal of the Glass-Steagall Act was challenged by some economists, who expressed nostalgia for a system that seemed to preserve banks from excessive risk-taking and from the need for a massive combination of skills.⁵⁸ As *The Economist* noted:

-
- Trust service
 - e-banking.”

URL: <http://www.fbme.com>. Such a portfolio of activities does not actually embody “universal banking,” but only diversified services to the two market segments: individuals and companies.

⁵⁶ Robert Slater, *Jack Welch and the GE Way: Management Insights and Leadership Secrets of the Legendary CEO* (New York, 1999).

⁵⁷ Anthony Saunders and Ingo Walter, eds., *Universal Banking: Financial System Design Reconsidered* (New York, 1996); Anthony Saunders and Ingo Walter, *Universal Banking in the United States: What Could We Gain? What Could We Lose?* (New York, 1994); Charles Calomiris, “Review of *Universal Banking in the United States: What Could We Gain? What Could We Lose?*” *Journal of Economic Literature* 33 (Sept. 1995): 1357.

⁵⁸ Lord Lawson, “Capitalism Needs a Revived Glass-Steagall Act,” in *Financial Times, The Future of Capitalism, The Big Debate*, 12 May 2009, pp. 22-23. URL: <http://www.ft.com/capitalism>.

What of [one of] the two big structural questions that now dog industry regulators—whether to separate out ‘utility’ retail banks from ‘casino’ investment banks? . . . Yet despite some talk about the need for a new Glass-Steagall act to separate retail and investment banking . . . the idea of breaking up institutions does not have great momentum.⁵⁹

The reshuffling of management fashions throughout the 1990s and 2000s involved reconsidering the relevance of the conglomerate model in favor of leaner management and “unbundling.” Some questioned vertical integration and excessive diversification, favoring outsourcing and focusing on core activities.⁶⁰ This would reinstate competitiveness, flexibility, and also quality, because corporacies tend to undermine the efficiency of internal processes and the accuracy of operational controls, thus causing gaps in the quality of products and, in banks, of services.

The value of the universal banking model has been questioned because of the crisis involving investment banking departments within ex-deposit and commercial banks. This perception does not reflect reality, however, because, generally speaking, corporate and investment-banking divisions fared well (even if they bore the burden of the slump). Confusion has reigned since 2006-2008, because what has been called “investment banking” was in fact “market banking” in the capital market, including large amounts of proprietary trading. Through the bullish years from 2004 to 2007, “universalized” banks reaped huge profits from such market activities. Although they were categorized as investment banking because of the activity of “investing,” these activities did not correspond to the classical and historical definition of investment banking—that is, transforming resources into mid- and long-term investments, either from outside (issuing and brokering) or through the management of an equity portfolio (*portefeuille titres et participations*, on the French banks’ balance sheet).

It is true that investment bankers practiced some proprietary trading (*portefeuille de placements*) on the secondary market, to fuel the liquidity of the equity of the firms they patronized or to obtain short-term profits; but such interventions in the financial market generally were conducted for the sake of their availability to customers (*service de la Bourse*), and deposit banks even traded for their wealthy clients. Thus, we do not perceive market banking as a key activity of investment banks, alongside forex activities.

⁵⁹ *The Economist: A Special Report on International Banking*, 16 May 2009, p. 7.

⁶⁰ Société générale was merging its assets management affiliate with that of Crédit agricole in 2009, and Barclays got rid of its assets management branch in June 2009.

We can thus imagine that the supposed recent fashion of universal banking in the field of market banking and proprietary trading was not the result of a convergence toward universal banking, but actually the invention of a new type of banking, practiced by commercial and deposit banks or by investment banks. The same is true of asset management, which rose to the status of a “specialized activity” beginning in the mid-1960s and became common in France in the mid-1980s (if we look at the amounts managed by asset management divisions and their affiliates). Both banking models were challenged because both types of banks had to jump into market banking and asset management to maintain momentum, follow the fray, and gain access to lines of returns and profits.

This situation explains the gap between new types of risks and the lagging array of risk controls, as many banks later noticed (with Société générale as a beacon, or Natixis and Calyon as scapegoats). They suffered abysmal losses; they were unable to tackle investment banking and market banking within their universal banking groups because they had been deposit-banking institutions. The universal banking fashion drifted into fashions of “free for all banking” or of a “bulimia” of activities.⁶¹ What was at stake in such a “fashion trend” was not “universal banking” itself, but the addition of new activities to already universalized banks, or to banks making a strategic transformation into universal banks (savings banks, mutual banks—they were building banks all over Europe).

The present crisis raises concerns about the reliability of such “fashion trends”—all banks rushing to practice every piece of banking activity without the skills to assume them and without enough capital—and the very legitimacy of the universal banking model. Strategies were once more under consideration.⁶² However, banking (and business) historians are ever conscious that bankers (and business people) do not always heed the lessons of history. They do not pay enough attention to the fact that changing patterns require a reshuffling of the skills portfolio to tackle a broader array of activities—something that mutual and savings banks did not sufficiently appreciate in England, Germany, France, or Spain in the 2000s.

Conclusion

We must not overestimate the impact of “fashions” concerning banking history. More than fashions, perhaps, they were “trends,” fuelled by an informal community of experts and business actors and interacting with the cognitive atmosphere and collective self-persuasion. Whatever the

⁶¹ See Claire Blandin, “Les banques européennes tentés par la boulimie,” *Le Monde*, 6 Feb. 1990.

⁶² Hervé de Carmoy, *Stratégie bancaire: Le refus de la dérive* (Paris, 1987); and Hervé de Carmoy, *La banque du XXI^e siècle* (Paris, 1995).

actual contents and outlines of such business and banking fashions, their most tangible results have been the building of “patterns”—either informally assumed by the banking community or formalized by regulations. Thus, fashions or patterns were commonly accepted as frameworks for the development of the French banking business during the times we have considered. They sometimes even served as “proactive” leverage for the general economy by contributing “pro-cyclical” factors.

The foibles of such fashions or patterns lie with the economic and business environment in which bankers act. The successive slumps, crashes, and crises had repeatedly shaken well-recognized certitudes and challenged the collective mindsets of the business community and of the public authorities in charge of surveying the banking economy and industry. The legitimacy, recognition, and persistence of fashions, trends, or patterns have been directly dependent on the economic environment or mid- to long-term actions and structures. Less ephemeral than fashions, because of their impact on the frameworks banks used for strategy, such clusters of theories and commonplace regulation patterns played a genuine role in shaping the paths of dependency that business historians recognize affect the life of enterprises.

If we focus on the fashion of universal banking itself, experts have often praised the convergence of deposit and commercial banking and of investment banking. Universal banking comes into favor when the economy seems to be missing some dynamic banking impulse that could supply more durable and assertive credit, support for permanent funds of companies, or a more intimate (and “embedded”) relationship between business people and bankers created through advice, engineering, and “tailor-made” services. All business people might dream of benefiting from “personal” senior investment bankers working to expand their companies more rapidly and strongly. The fashion of “mixed banking,” “regional banking,” or more recently, a confused form of “universal banking,” has fostered fantastical conceptions through which the economic and business community convinced itself that universal banking would be the key to growth. Italy and France were both grounds for such a “competition” between the fashions of universal banking and specialized banking; both “models” or patterns took shape, more or less powerfully, depending on the economic and political environment.