

VI.—Notes on the Société Générale de Crédit Mobilier.—By Richard Hussey Walsh, LL.B., Professor of Political Economy in the of Dublin.

[Read 16th June, 1856.]

PUBLIC companies have been productive of the greatest utility to society, by affording its members an opportunity of combining their capital for the achievement of common purposes, and thereby occasioning results beyond the power of any of them to effect by himself. But considerable as is the force thus brought into play, anticipations of what it might be and ought to be advance yet further; and the fears of those who dread the competition of such companies, and the hopes of those who embark their means in them, are exaggerated in proportion. In Mr. Lowe's Joint Stock Companies' Bill, lately brought before the House of Commons, Mr. Spooner (see Debates on Monday, May 16, 1856) could see nothing but an engine for the destruction of private traders, unable to compete in any of the paths of industry with wealthy opponents commanding the resources of numbers. "Conceive," he cries, "a company of grocers!" What is to become of "the individual grocer?" Judging from experience, the chances are "the individual grocer" will stand his ground remarkably well against his threatened rivals; and when I ask what is to become of the shareholders of the promised "company of grocers," I put a more pertinent question. For the credulity of shareholders is proverbial since many a long day; we have all heard of the South Sea Company, its absurdities and misfortunes; but according to Mr. Francis, in his History of the Bank of England, the South Sea Company was a legitimate trade compared with some of the speculations which arose in the early part of the last century. "Schemes were proposed which would have been extravagant in 1825, and which stamped the minds of those who entertained them with what might be truly termed a commercial lunacy. One was for the 'discovery of perpetual motion.' Another for subscribing two millions and a half to '*a promising design hereafter to be promulgated.*' A third was a 'company for carrying on an undertaking of great advantage, *but nobody to know what it is*; every shareholder who deposits £2 per share to be entitled to £100 per annum.' Even this insolent attempt on the credulity of the nation succeeded; and when the arch rogue opened his shop, he was beset with applicants. In five hours, £2000 were deposited in the hands of the projector; and from that day he ceased to be heard of in England. Projects like these enlisted the lowest with the highest. On some sixpence, and on others one shilling per cent. was paid; and as no capital was required, the comparative beggar might indulge in the same adventurous gambling and enjoy the same bright castles in the air which marked the dreams of the rich and the great. Some came so low as to ask only one shilling on every thousand pounds. Persons of quality, of both sexes, were engaged in them. Avarice triumphed over dignity: gentlemen met their brokers at taverns, ladies at their milliners' shops."

At the present day there exists in France a mania for companies, equal in intensity to that which prevailed in England towards the commencement of the last century, and often sprung up at intervals since; or to that which desolated France itself under the regency of the Duke of Orleans. The extraordinary forms in which this mixture of the commercial and gambling spirit manifests itself, excites the alarm of economists and politicians; while moralists view with apprehension the all-absorbing greed for gain which seems to have taken possession of the nation. Some little sensation has been created in Paris during the last few days, by the Archbishop having published a pastoral letter, in which, half sorrowfully, half sternly, he condemns the prevailing mania for speculation. "There exist at present," he says, "dispositions, instincts, ardour, and fever, which terrify us. We fear that even the peace which has been given us will augment existing evils." And he proceeds to condemn severely the prevailing Mammon worship, and expresses grave apprehensions as to the probable consequences of this state of things. France is, indeed, at this moment in a fever of avarice.

— Rem facias, rem,

Recte si possis; si non quocunque modo, rem.

Or, as one of our own poets happily renders it:—

"Get wealth and power, if possible, with grace;
If not, by any means get wealth and place."

It very rarely happens that the social body recovers from such a malady, and resumes a healthful tone, without some dreadful convulsion, commercial or political.

In 1852, the system of credit and stock-jobbing, which has of late assumed such gigantic dimensions, seems to have received its first great impulse. In that year the Société Générale de Crédit Foncier, and the Société Générale de Crédit Mobile were formed—the second having been quickly followed by a third, established in 1853, called the Société Générale de Crédit Maritime. These are the giants of the new system; but they have numerous imitators on a smaller scale, all agreed in the general principle as to the superiority of public companies over individuals in every conceivable department of industry. The development which joint-stock enterprise is taking in Paris becomes more and more remarkable. In a long list of companies recently established,* most of them of a character which would lead one to anticipate for them anything but a successful career, I find a company for washing clothes. Once, during one of our joint-stock manias, a company was set up in London for superseding the milkman, but it was unable to withstand the competition of the latter. The chances are, the Parisian washerwomen will prove equally formidable rivals to the company which has just come forward to teach them their work.

The most important of the Companies now existing in France is the Société Générale de Crédit Mobilier.† As implied by its name,

* "Economist," June 14, 1856.

† Those who wish for fuller details as to the constitution and operations of the Crédit

moveable (that is, personal) property may be dealt with by this Company, unlike the Crédit Foncier (or Land-Bank), whose operations for raising money in addition to its paid-up capital, are confined to the negotiation of the securities it acquires by lending on mortgages of immovable (that is, landed) property. The capital of the Crédit Mobilier, all of which has been paid up, amounts to £2,400,000. It is permitted to borrow money to ten times that amount—£24,000,000—on the security of its own bonds; these bonds, however, differing from our own bank-notes, with which they are sometimes confounded, inasmuch as they are not like them payable on demand, but only (at least, in most instances) give the holder a right to receive an annuity from the Company, which, at the end of a term of years, extinguishes both principal and interest of the loan for securing which the bond was originally passed.* And besides its capital, whether subscribed by the shareholders or borrowed on the terms just explained, the Crédit Mobilier receives money on accounts current, and thus a third source is opened whence funds may be derived for supporting the gigantic operations of the Company. Not to trouble you with details, the general business of the Crédit Mobilier may be described briefly thus:—It employs its money, whether subscribed by the shareholders or borrowed in the manner already pointed out, in buying up shares in other Companies; managing the affairs of these latter, or taking part in their management, as long as it pleases; and then re-selling them for whatever they may bring in the market. It may pledge these shares, if it be desired to raise money without selling them; and it may receive shares in pledge instead of absolutely purchasing them, and lend money to those who offer them in pledge. It may deal in the same way with public securities, such as the funds, buying and selling them, pledging them and receiving them in pledge. Besides dealing in shares and securities which had before been in existence, the Crédit Mobilier may take the initiative as a gigantic contractor. It agrees to supply loans, to perform works; and having fulfilled such contracts, is free to deal with the resulting securities on whatever terms it can.

The operations of the Company are not confined to France, but extend to other countries.

You must now perceive the wide range of business assigned to the

Mobilier may consult the work of M. A. Courtois, "*Des Opérations de Bourse, etc.*," published at Paris by *Guillaumin et Cie.*; also, the last report of the Crédit Mobilier, which is to be seen in the *Times*, 21st May, 1856. Along with much that is curious, if not instructive, both contain the most absurd and mischievous views on the subject of credit and association.

* The bonds or debentures of the Crédit Mobilier are of two kinds. "The first, issued for a short time, must correspond with our various temporary investments; the others, issued with remote dates of payment and reimbursed by redemption, will correspond with the investments of like nature which we shall have made either in rentes, or in shares and debentures of manufacturing companies." The preceding is an extract from the original exposition of the plans of the Company, quoted in the Report for April 23rd, 1856. It appears that those debentures have been issued to a great extent. It is absolutely necessary for a Bank which invests the money of others in securities which cannot quickly be realised, (as for example, when it sinks it in a manufactory,) to provide that the creditors cannot demand payment until some distant date. Otherwise the Bank would be exposed to a "run," in periods of pecuniary

Company. And whether we look to its last report, or notice the brief allusions scattered up and down the city articles or foreign intelligence of the press, we find that in practice it has not been slow or sparing in making use of its privileges. It is to be heard of alike at home and abroad; in the new world and the old. It is said to have proposed to buy up the great Honduras Railway Scheme, *vice* the Nicaragua Canal exploded. It is, in fact, "among Joint-stock Companies," (*Spectator*, May 17, 1856,) "what the house of Rothschild is among individual capitalists; it lays out railways, and assists Austria to carry on her great public works; it establishes branches, or guarantees aid to similar Societies in Spain, Italy, Germany, and France; it plays nurse to a Bank at Darmstadt, a Rivoli Company, a mining project in the Loire, and a General Shipping Company for France; these being only a few of the projects it has initiated or adopted. It purchased 250,000,000 francs of the last French loan, negotiated subscriptions for 375,000,000 more, and afterwards bought up 600,000 of rentes; and in its newly issued report, it makes a patriotic merit of not having realized profit in the loan by selling the stock;" a step which it avoided (as alleged in the Report) through fear of bringing down the prices of the public securities, and thus lowering general confidence, and throwing difficulties in the way of the financial operations of the Government. It also enacts the corn-merchant, the bullion-merchant, and the gas-fitter; and, not to proceed with further particulars, it would be much shorter to say what the Company does not attempt, or contemplate attempting, than what it does.

To persons in this country it may seem objectionable and hazardous for one company to pursue such a multiplicity of schemes; but this it is which is its principal merit in the eyes of most Frenchmen, among whom there is generally some of the leaven of socialism. The great bugbear of socialism is competition among companies and private traders. This it is, they say, which beats down the wages of the poor, and the profits of the small capitalist; and accordingly, the project of the *Crédit Mobilier* to put an end to competition by amalgamating those amongst whom it would otherwise have existed, is viewed with great favour.

In order to estimate the chances of success of an undertaking like the *Société Générale de Crédit Mobilier*, I shall briefly consider the nature of the cases in which public companies have proved profitable, and then examine if the conditions of their success are fulfilled by the great association we are at present discussing. Much is said about companies supplanting the private trader, but the truth is, the kinds of business in which such succeed are most

pressure, or want of confidence; a contingency which it could not possibly encounter successfully when its money had been sunk in permanent investments. Were one of our Banks (the holders of whose notes or deposit receipts are entitled to demand payment at any moment they like, or, at least, after very short notice,) to engage in the same class of operations as the *Crédit Mobilier*, it would be ruinous, most likely, in the first season of anything resembling commercial pressure. But the *Crédit Mobilier*, with money raised on debentures of the kind just described, may follow with impunity, at all events for a longer period, a course which could not fail to involve banking establishments such as ours, in serious difficulty, not to say ruin, before much time had elapsed.

of them those which, if there were no companies, would not be carried on at all, or else be conducted in a most unsatisfactory manner. It is not, in other words, that companies succeed by doing better what private individuals in their absence would have done well; but they succeed by doing in some way or other what else would not have been done at all, or else performed very badly. There are few private individuals who are rich enough to make a canal or railway. There are some exceptions, indeed; that, for example, in the case of the Duke of Bridgewater, who expended a princely fortune in making the canal which now bears his name. But, as a general rule, it may be laid down that without the combination of the pecuniary means of many individuals, works of that description would rarely be attempted; and hence they afford an appropriate field for public companies.

The trade of banking, on the other hand, affords an instance of a pretty large class of undertakings, where great security rather than an extraordinary amount of money is required, and which consequently can be carried on by private individuals, but not in a satisfactory manner. Formerly, when banks with more partners than six were prohibited in England and Ireland, we did not suffer from any want of banks, but rather from the wretched description of those we had.

In a paper read by Dr. Lawson before this Society, containing statistics to illustrate the kinds of business best suited to Joint-Stock Companies, there is much information bearing on this subject; and any one who takes the trouble of consulting it will perceive that it fully bears out the principle I have stated respecting the success of public companies, viz. :—that they are adapted for those pursuits alone, which, if no such Companies existed, would either not be carried on at all, or else be managed very badly by private individuals.

Such are the conditions under which alone we may reasonably anticipate the success of a public company exposed to the competition of private individuals. But when we come to the *Crédit Mobilier*, we find it presents the following peculiarity:—It is not intended for carrying out any one sort of business in particular, but a multiplicity of kinds of business. This involves the question, not only as to whether a company is fitted for conducting each of them separately, but also, in the event of the answer being in the affirmative, whether it is fitted likewise for conducting them all together. As to the first question, the objects of the *Crédit Mobilier* are so numerous and indefinite, that all I can say is that some of them are, and others are not, calculated to be conducted successfully by a company. And several of them are not even intended to afford profit; the operation, for example, described in their last report, of buying corn when it was dear, and then selling it cheap to the poor. And the business of lending money to those most in want of it must be placed in the same category. At least, I am sure of this much, that the shareholders of one of our ordinary banks would be greatly alarmed for their dividends, if they learned that the directors adopted the rule of the *Crédit Mobilier*, of accommodating those “least favoured by fortune.” But, leaving

aside those extreme cases, and considering the business of the *Crédit Mobilier*, not its charitable operation, and even granting, for a moment, that all the former are such as a company might conduct successfully separately, are we to assume a similarly fortunate result when it essays them all together? The advantage of a company over a private individual is, that its capital is greater, and thus it may carry on production on a larger scale, so that an increased division of labour and consequent augmentation of its efficiency may be brought about; but this ceases altogether when the greater capital of the company, instead of being employed in conducting any one kind of business on a greater scale, is merely employed in conducting a greater number of different kinds of business on the same scale as usual. In such a case, the great advantage of a company disappears, and all the disadvantages remain and multiply. If a single establishment of a company is more wastefully conducted than that of a private trader, what will it be when the former sets up a multitude of separate establishments—if in one place it became a railway company; at another, a corn merchant; here, a gas-fitter; and elsewhere, a builder? The popular proverb about the effect of having “too many irons in the fire,” answers this question very shortly and conclusively; and leads us to infer that the *Crédit Mobilier* is not calculated to prove successful, even in those departments of industry which, if cultivated separately, are suited to a public company. Besides, the multiplicity of the pursuits of the *Crédit Mobilier* involves the necessity of its including a number which do not come within the very limited range of those which public companies can conduct successfully.

Even were the management of a company with the objects of the *Crédit Mobilier*, the most unexceptionable possible which its constitution admits of, I do not think, on the grounds already stated, that it is calculated to prove profitable; but so far from any such condition being at all probable of realization, the management, on the contrary, is likely to turn out both unskilful and dishonest. When a trading concern professes to aim at the noblest, grandest, and most disinterested purposes, and at the same time afford ample profits to its promoters, the enthusiastic philanthropist at once comes forward to support the undertaking. He is attracted by the benevolent projects unfolded, and his sanguine disposition makes him ready to believe that the enterprize will be equally excellent as a pecuniary speculation; and he thus stills the voice of prudence, which might otherwise have deterred him from investing largely in so novel a scheme. But as surely as carrion attracts the vulture, so will the trading gambler or swindler be found hurrying to mix himself up in any transaction where the unsuspecting come forward with their money. Among the great and philanthropic undertakings which the *Crédit Mobilier* shadows forth as coming within its mission, are the following:—“To draw the east closer to western civilization, and restore its ancient prosperity; to open more rapid and less costly communications between the two hemispheres; to bring into cultivation, on a vast scale, the African possessions of France; to develop the mercantile shipping of France;

to encourage agriculture by a closer alliance with commerce and manufactures; to multiply capital by association; and to extend the benefits of credit to all trades and professions, and even to the persons engaged therein who are least favoured by fortune." This is certainly a tempting bill of fare—sure to allure the real and pseudo-philanthropist, the man who loves his species and him who makes a trade of affecting a similar feeling; and then, when the flat heads and the sharp heads (as the Germans express it) come together, it is easy to predict the result. M. Place, one of the directors of the Crédit Mobilier, failed the other day with engagements to the extent, it is said, of £720,000. What became of the money, and what caused the failure, I am not aware. It might have been misfortune, or it might have been fraud. But whether it was the one or the other, in either case M. Place affords a fair specimen of one or other of the classes which an institution like the Crédit Mobilier must attract—the "flat heads" or the "sharp heads." *

* Since this was written, the bankruptcy of M. Place has been set aside, but not under circumstances calculated altogether to reassure the public. The shares of the Crédit Mobilier which had been at 1980 francs have sunk by about 300 francs, and it is not likely they will be permanently restored to their former favour.

The following are the particulars as to M. Place, taken from the *Economist* of the 21st instant:—

"The bankruptcy of M. Place, one of our great Stock Exchange speculators, which created such immense sensation on the Bourse at the end of last month, has, on his own demand, been set aside by the Tribunal of Commerce. The bankruptcy was declared at the request of the Company of Agens de Change, on the ground that he was unable to meet his engagements, and that he had taken to flight; and it has been reversed on the grounds that he was not unable to meet his engagements, inasmuch as the liabilities to which he is subjected will not have to be paid for some time to come; that he did not take to flight, inasmuch as he merely left Paris to visit some lands and quarries about to be conceded to him in Algeria; that before leaving, he provided abundant means for paying any claims that might arise during his absence; and that the moment he learned by telegraph at Marseilles of the measures taken against him, he hurried back to Paris, and would have arrived in time to prevent the declaration of bankruptcy, if the inundations had not prevented him; and, lastly, that all his principal creditors had given him a certificate that they did not believe him to be insolvent. Although, however, thus relieving him from the stain of bankruptcy, the Tribunal declares in its judgment, that at the time its fiat was issued, 'his affairs were in a bad state, and presented an important deficit.' And this assertion is established by an official report presented to the Tribunal, from which it appears that his liabilities, at the moment his bankruptcy was declared, exceeded his assets by 2,478,000*f.* (very nearly £100,000). He himself, it is true, alleged on the contrary, that his assets were 15,717,000*f.*, and his liabilities only 13,880,000*f.*, which leaves a balance in his favour of 1,837,000*f.*; but the report says that he counted as assets an item of 4,315,000*f.* as the profit of speculations not yet terminated, and which is consequently not yet certain. On the whole, English readers will, no doubt, think the case a very queer example of the way in which business is done in Paris. Either it will seem to them the Tribunal was very hasty in pronouncing its first judgment, or very complacent in reversing it."

The latter conjecture is probably the correct one. An institution, whose success depends so much upon public confidence as the Crédit Mobilier, would naturally be disposed to make every effort to remove the stigma which the failure of an individual so high in office as M. Place must tend to produce. And were the Crédit Mobilier bent on interfering with the sufficiently pliant French officials, there is no doubt that the government influence it possesses would enable it to carry out its object. The recent accession of M. Place to the office of Director of the Company is dwelt upon in the last Report as a great acquisition; and it cannot be denied that it

But the dividends of the Crédit Mobilier for the past year have been at the rate of 40 per cent; and its 500-franc shares sold for 1980 francs each, or at a premium of nearly 300 per cent. How is this to be reconciled with prognostications of want of success? Very easily, it appears to me. In the first place, it is quite possible those dividends have been paid out of capital, not profits; and that system, we all know, cannot go on long. And, in the second place, it is not unlikely that one of the various avocations of the Company has been really a source of profit, but then a source of profit which must quickly be dried up.* The Company, as before mentioned,

would be highly advantageous for the Company to be able to prove that its confidence had not been misplaced. By the way, M. Place's idea of representing contingent profits as present assets seems borrowed from the Manager of the Crédit Mobilier; for it is to that gentleman, I presume, the following extract from a late number of the *Times* refers:—

“The advices from Paris mention a remarkable instance in which advantage has been taken of the prevailing inflation to effect a *cash realisation of speculative estimates of future profits*. It appears that the Concessionaires of the Austrian railroads—M. Péreire and three other persons—have valued the claim they reserved for themselves to 10 per cent. of all profits after the payment of 6 per cent. to the shareholders, at a sum equal to 44,000 shares; and that an arrangement has been made to commute it on those terms, and to issue to them that number of shares, which will henceforth be added to the capital of the Company. At present prices, the value of the shares thus to be divided among four persons is about £1,700,000.” Thus the Concessionaires are enabled if they wish, to sell for ready money shares obtained for nothing, and leave the Railway to make the supposed extra 10 per cent. as best it may.

* How precisely the Crédit Mobilier has realised the profits of the past year (if indeed they have been realised), is not easy to discover. In the Report great soreness is exhibited on account of certain calumnies which are said to have been propagated respecting the silence of the Company as to the nature of its operations, and the high prices of its shares. But the silence is excused rather than broken, and little or nothing said about the uses to which the high prices are turned. It is intimated, however, that profits so great as those stated to have been made hitherto are not to be looked upon as a matter of course. “In short, we must add, in order to caution you against any erroneous idea of the future annual accounts, that our profits have been exceptionally increased this year by the part which we have taken in the constitution of various important affairs.” That the profits of the Crédit Mobilier have been exceptionally great (or its losses exceptionally small), few will be disposed to contest; for reason and experience alike indicate that the profits of such a Company must in general be expected not only not to be large, but to be absolutely *nil*, and its losses before long to turn out not only not small, but so very considerable as to be incompatible with its continuing in working order. The crisis which I am led to anticipate from the nature and objects of the Crédit Mobilier may be hastened by the enormous losses occasioned by the late inundations throughout France. The destruction of capital which has been effected by the floods, the demand for loans both by government and many of the sufferers to supply the deficiency, and the want of confidence arising from the inability of numbers to meet their engagements, must paralyze operations based on credit, by lessening at once the amount of the funds available for supporting them, and the disposition of the owners of the diminished supply to make any advances except on the very best security. In the Report before alluded to, the Bank of France is indirectly sneered at, because, alarmed at the exportation of specie during part of the past year, it adopted restrictive measures and contracted its accommodations to trade. Perhaps it will now turn out that an institution which has adopted prudent precautions in time may prove in a season of real difficulty all the better able to assist the nation in its troubles. By its early precautions much capital is saved which might otherwise have been lost in a period of speculation, or at least “locked up” so as to be unavailable when required. And owing to its stability those who have been accumulating are willing to make it their Bank of Deposit, while, had it pursued a reckless career, they would have hoarded their money when commercial credit and confidence were low, and thus cut off the supplies of capital at the moment they were most urgently wanted.

may deal in the shares of other associations, buying them and selling them according as it thinks fit. The reputation for power and success which the *Crédit Mobilier* has hitherto possessed, would be quite enough to send up the price of the shares of any Company which it might take as it were by the hand; and then there is nothing to prevent a quiet and unostentatious disposal of these shares at considerable profit. But if it merely sends up the shares of other Companies by virtue of its reputation, and not by any improvement in their condition, it will speedily lose this power if it is discovered that it mixes itself up with other associations, not for the purpose, and with the effect, of rendering them more productive, but merely with a view to speculating in their shares like any stock-jobber.*

* In the Paris correspondence of one of the London journals (July 3rd, 1856), which has just come under my notice, there is an account of some curious proceedings relative to the *Crédit Mobilier*. One of the shareholders, M. Goupy, brought an action to recover damages against the company under the following circumstances:—Some time before, the company had announced that it was about raising money to be secured by the issue of a number of bonds for 500 francs; but that to favour the shareholders they might have a preference for as many bonds as they wanted, on the very advantageous terms of paying but 280 francs for each. In order to become entitled to subscribe to these bonds, numbers purchased shares in the company, and among them M. Goupy. And it is asserted that, at the same time, the directors took advantage of the high prices which the shares attained under the influence of the competition thus set on foot, and disposed of some of theirs to great advantage. They then announced that the promised bonds were not to be issued. Upon this, the deceived expectants became very indignant, and M. Goupy made himself their champion, and prosecuted the company on a charge of swindling, before the Tribunal of Correctional Police. But he failed to obtain a conviction, the company having proved that it was not their fault the bonds had not been issued; the fact being, that government had prohibited the issue, in order to prevent the occurrence of an extra demand on a "tight" money market, for means to subscribe to these very attractive bonds. It is difficult to imagine, however, that such a body as the *Crédit Mobilier*, could not have ascertained beforehand the intentions of government; and, if so, the conduct of the directors is much to be condemned, if, as is alleged, they made money by selling shares at prices enhanced by the expectation of the bonds which, in fact, could not be issued. Nothing daunted by his failure in the criminal court, M. Goupy next brought an action for damages before the Civil Tribunal; but now again the same defence awaited the company, and M. Goupy sustained a second defeat. "The interest of this singular case was greatly increased by the celebrated advocate and parliamentary orator, M. Berryer, having appeared for M. Goupy, and vehemently attacked the *Crédit Mobilier*, not only for the alleged injury done to his client, but also for its general operations. It boasted, he said, in a report issued to its shareholders, of having realised 31,000,000 francs, on a capital of 60,000,000 francs, in the course of a year. But how had it done so? By gigantic gambling. It was, in truth, nothing else than a gambling institution—the greatest gambling house that ever existed in Europe. By its gambling it had caused the ruin of hundreds, and, in the long run, it would ruin itself,—ay, and the empire too by which it had been fostered. In answer to this philippic, the *Crédit Mobilier* laboured to show that it had made its profits not by gambling on the stock exchange, but by legitimate banking operations on a large scale, and by getting up or supporting various great railway and other companies. The public prosecutor, however, who always has something to say on behalf of the people in every case tried here, made some very sharp observations on its operations; and he proclaimed with much apparent indignation that it had scandalously encouraged the fatal passion for gambling which characterised the epoch."