

Pre-Banking Financial Intermediation: Evidence from a Brokerage Law Reform in Eighteenth Century Marseille*

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Abstract

The literature on financial brokers in the early modern age portrays them as inextricably connected to securities exchanges, quoting and transacting public debt and the shares of the few existing joint stock companies. However, how was trade finance obtained by ordinary merchant houses located beyond the reach of sophisticated credit and money markets of the great hubs of Northern Europe? In documenting the evolution of brokers into nearly full financial intermediaries in Marseille I investigate a series of French regulatory reforms, culminating with the transformational, and controversial, Edict of 1709. Under the Ordonnance du Commerce of 1673, brokers were restricted to gathering price information, putting buyers and sellers in contact, and guaranteeing the authenticity of deals. Brokerage fees were strictly regulated and municipalities controlled market entry by issuing commissions whose quantity was dictated by the government's revenue raising needs rather than by local market conditions. As a result of these restrictions, the common view in the literature is that brokers struggled financially, surviving at the outskirts of the social and financial systems and in competition

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with petty moneylenders and merchant houses. At odds with this view, the evidence shown in this paper describes a very different reality for brokers in Marseille over the eighteenth century, during which time brokers rose rapidly to occupy a prominent economic and social position. I look at how the path breaking Edict of 1709, which allowed brokers to perform both matching and proprietary trading, prompted the ascent of brokers in Marseille. I provide preliminary evidence on which financial functions brokers performed and how close they were to banks by drawing on archival sources depicting the relationship of a major merchant house with all its brokers in Marseille. I identify regional differences in enforcement of the critical brokerage rule -the Edict of 1709- and on that basis elaborate on the consequences of allowing intermediaries to endogenously determine the extent of their activities. I investigate whether consolidation of financial services led to an increase in brokers' business volume, profitability, and political clout. I study how these legal provisions encouraged the democratization of credit in a region without banks, and how they determined the structure of intermediation.

1 Regulation of Credit Intermediation in Eighteenth Century France

Although embryonic capital markets had developed in several European commercial centers by the seventeenth century, credit for commercial transactions in France was intermediated by the brokers, or *courtiers*.¹ However, unlike more developed markets in London and Amsterdam, the French market in the seventeenth century imposed strict regulations on broker's business, curtailing their profitability and relegating the brokers as a group to the margins of society. In this section I describe the restrictive regulations governing the brokerage of commercial transactions and their implications to brokers' business activities and performance. I contrast the relatively narrow scope of activities open to brokers during this time period with the liberalization of broker activities in Marseille beginning at the start of the eighteenth century, discussed later in section II.

Brokers in seventeenth century France were subject to controls governing market entry. Since at least the Edict of 1572—when the brokerage of negotiable debt was recognized as a “commission,” or a function performed by a public servant—a government licensing scheme restricted entry into the brokerage market. Indeed, prior to 1692, brokers were subject to the authority and abuses of power of public office holders whose increasingly burdensome tax impositions led brokers to play only a

¹Some medieval accounts portray these agents as cultural brokers. Based on the etymological origin of the word in Italian, P. Laband (1861), p. 11-12 thinks that they were primarily designated for translation services, to check the quality, and to provide impartial reports of market conditions. Van Houtte (1936), p.113: “le terme sensale, par lequel on désigne en italien les courtiers et le vocable latin censualis, celui-ci ayant, entre autres significations, celle de témoin instrumentaire. ” Van Houtte (1936), p.115: “ De l'examen de la législation des marches et des foires du monde entier il [Paul Huvelin]conclut que les coutiers, qui se rencontrent absolument partout, doivent leur existence au besoin universel d'atténuer les effets de l'hostilité qui règne entre individus de races ou de langues différentes. ” Van Houtte (1936), p. 129: “ Le courtage apparaissait donc au Moyen Age comme un système de surveillance plutôt que de médiation, comme une sorte d'inquisition commerciale empreinte d'une vive méfiance envers les étrangers ”. Van Houtte (1936), p. 106: “Les fonctions des courtiers étaient plus marquantes encore dans le passé. Les communications étaient plus difficiles que de nos jours, la connaissance des langues étrangères moins répandue, les répondants plus difficiles à trouver, les habitudes commerciales moins faciles à pénétrer, Les courtiers étaient les intermédiaires, les truchements, les conseillers commerciaux et juridiques.”

minor role in credit intermediation.² Beginning in 1692, brokers were elected by the chamber of commerce, or the *juridiction consulaire* to the role of public servants. The Edict of May 1692 elevated brokers to the condition of a self-governing corporation with special privileges and named them royal brokers in exchange for a license fee.³ From then on, instead of being simply commissioned by and subjected to the local government, brokers acquired property of their offices.

Though civil-law notaries were also financial intermediaries, evidence suggests that notaries' lending served the life-cycle needs of nobility and office holders rather than for the productive investment. Notaries specialized in long-term loans and their capacity to mobilize resources was restricted to the geographic area of their clientele. Full intermediation was legally prohibited to notaries.⁴

The government managed the supply of broker commissions through a quota system, with varying degrees of success. Broker commissions could be sold or bequeathed to one's heirs. The *Arrêt du Conseil D'État* of May 15, 1595, was one of the earliest law meant to regulate the number of brokers, and the *arrêt* created brokers' offices in Paris, Lyon, Marseille, Rouen, Amiens, Dieppe, Calais, Tours, La Rochelle, Bordeaux, and Toulouse. Royal regulations fixed the number of brokers; however, enforcement of these limits was uneven and the supply of brokers in some areas could be much higher than the official allowance.⁵ Through the seventeenth and eighteenth centuries the number of offices did not remain fixed; local governments would create additional offices to raise revenue. In Paris, for instance, the total number of official brokers fluctuated between twenty and sixty. Most of the time, old offices were eliminated

²Genevet (1845), p. 43. " Jusqu'ici, Messieurs, le Consulat avait pu se défendre contre les entreprises de l'autorité royale et conserver son privilège de nomination aux fonctions de *courretiers*. Ce privilège ne pouvait subsister que grâce à la méthode des provisions ou commissions; que la commission soit remplacée par une quittance de propriété, acquise moyennant finance, et le privilège du Consulat disparaît. "

³Rambert (1954), p.543. "de simples commis municipaux qu'ils étaient jusqu'alors, les courtiers devenaient tout d'un coup de grands personnages. "

⁴Hoffman et al. (1992).

⁵Vigne (1903) p.197 " Un arrêt du Conseil d'Etat du roi, du 15 mai 1595,...semble être resté complètement ignoré à Lyon, probablement d'une façon volontaire et le nombre des courtiers continua à y être illimité. "

and new ones created to replace them. Similarly, in Marseille in 1705, twenty-eight new offices were created and added to the forty-nine that already existed. The body of brokers protested against this measure and, as a result of the quarrelling with the government, a 1708 law abolished the forty-nine old offices and created sixty new ones. However, in 1709, the forty-nine old offices were reestablished, along with 14 of the sixty new offices.

Brokers' activities were limited to a small set of matchmaking functions that connected buyers and sellers of commercial debt. The Edict of 1639 required brokers (with some limited exceptions) to specialize in one of three areas—merchandise, insurance, or in exchange. Brokers in this final category were in charge of trading financial instruments such as promissory notes or bills of exchange. By law, brokers were restricted to gathering price information, putting buyers and sellers in contact, and guaranteeing the authenticity of the deals.⁶ Under title 2, article 1 of the 1673 *Ordonnance*, brokers were forbidden to do business on their own account.⁷ Activities beyond this scope were policed vigorously by the courts. An *Arrêt* of the Conseil in August 1720 reinforced that brokers were not allowed to trade into their own account.⁸ Similarly, article 38 of the *Arrêt* of September 24, 1724, established that brokers could not give warranties (*donner un aval*); their sole function was to certify signatures.

Brokers' fee structures and levels were also regulated. Brokers were entitled to a *droit de courtage*: a commission determined as a percentage of the total value of

⁶Delamare (1809) p.10. “..Il leur enjoint de coter les effets négocies par eux, et leur prescrit d’en certifier les signatures; mesure sage, qui marquée la prévoyance du gouvernement, et voulue pour empêcher la fraude des négociations simulées”

⁷Ordonnance, 1673, tit.2, art.1. Défendons aux agents de change et de banque de faire le change ou tenir banque pour leur compte particulier, sous leur nom ou sous des noms interposes, directement ou indirectement, ‘a peine de privation de leur charge et de 1500 livres d’amande. Ne pourrons aussi les courtiers de marchandise . . . ou signer des lettres de change par aval, pourront néanmoins certifier que la signature des lettres de change est véritable.. ”

⁸Delamare (1809), p. 11.“..il explique les lois precedentes d’une manière tellement precise, qu’elle n’est susceptible ni d’interpretation, ni de la moindre equivoque. Cet arret porte que les Agens ne pourroint avoir caisse, ni faire aucune negociation pour leur compte, non plus qu’en endosser aucune lettre-de change. . . , mais qu’ils pourront seulement certifier la verite des signatures ”

the deal, shared equally between buyer and seller. The *Reglement* of 1654 set the brokerage fee or commission in 1 percent for merchandises costing below 1200 *livres* and 0.6 percent for any amount above it.⁹ The *Ordonnance du Consulat* of December 31, 1668, set a fee of 1 percent for money changing and 0.03 percent (7 *sols* for every 1000 *livres*) for merchandise. The Edict of August 1692 changed exchange brokers' fees to 0.05 percent (10 *sols* for 1000 *livres*) but in practice from 1700 onward brokers charged 0.2 percent (40 *sols* for 1000 *livres*).¹⁰ The Edict of December 1705 allowed brokers to charge 0.25 percent (50 *sols* for 1000 *livres*) for financial intermediation and 0.5 percent of the value of the merchandise. In Lyon brokers charged 0.06 percent (40 *sols* for 3000 *livres*) for merchandise, but some merchandise such as silk commanded a higher fee: 12 *livres* for each *balle de soye* or 0.5 percent of the value of the silk when sold by weight. Fees were fixed and any attempt to charge more could result in harsh punishment.¹¹ These practices seem to be in line with arrangements in other European mercantile centers at the time. The brokerage fees in London amounted to 0.125 percent ($\frac{1}{4}$ for 100 pounds sterling), in Venice $\frac{2}{3}$ for thousand, in Genoa $\frac{1}{3}$ d'écu pour 100 écus, in Livorno $\frac{1}{2}$ for 100, Bologna 1 sol for 100 écus. In Amsterdam the fees were established by the ordinances of January 1613 and of 22nd November 1624 and they were of the order of 3 *sols* for each 100 florins.¹²

Besides the brokerage fee, another source of revenue for some brokers, however meager, were *gages*, which represented interest paid by the Crown on the office's purchasing price.¹³ Some offices conferred prestige and ascent to nobility. In contrast

⁹Revue de Marseille et de Provence (1868), p. 261. " Il est un Courtier qui, outre les " maltôtes au mépris du règlement de 1654, qui fixe les " courtages à un pour cent pour les objets de 1,200 livres, " et à deux tiers pour cent excédant 1,200 livres, payables " moitié par le vendeur et moitié par l'acheteur, se fait " payer indifféremment toutes les censeries à 2 p. cent, et, a en outre, il exige un droit de 4 livres pour chaque police " ou connaissance de marchandises embarquées sur les " bâtiments qui chargent a la cueillette, qui sont payées " moitié par le capitaine et moitié par le chargeur. "

¹⁰Genevet (1845), p. 79

¹¹The crime of " concussion " or corruption could be punish with death penalty.

¹²Encyclopédie méthodique (1783), p.65. Carlos et al. (2007), p.45 " Dickson, 493, fn 1. Accounts of Lord Londonderry, one of the more active speculators in the London market before and during 1720 show that he typically paid $\frac{1}{8}$ percent commission."

¹³Doyle (1995) "By the eighteenth century, however, the value of gages was extremely modest. In

to these offices, the broker offices were bought solely with the expectation of tangible profits.

As a result of these onerous restrictions, brokers often struggled financially. Accounts of their earlier history portray a doomed picture of the profession, surviving at the outskirts of the social and financial systems and in competition with petty moneylenders and merchant houses.¹⁴

2 The Edict of 1709 and the Ascent of Brokers

The Edict of 1709 relaxed broker activity restrictions, allowing them to take on a larger role as financial intermediaries. As noted above, under title 2, article 1 of the 1673 *Ordonnance*, brokers were forbidden to do business on their own account. In clear opposition with these regulations, the Edict of 1709 gave brokers the right to maintain a *caisse*. While the law did not explicitly permit the brokers to perform full intermediation—merely allowing them to have a “cashier desk”—some courts interpreted the Edict to grant brokers this authority.¹⁵ Thus, after 1709 brokers could broker a commercial transaction in two ways—first, by matching the parties to the transaction for a fee, as had been done before the Edict, or second, by negotiating the instrument from the seller and negotiating it over to the buyer, endorsing it (and, under the Joint Liability Rule, assuming a contingent obligation on instrument). This edict paved the way to the ascent of the brokers and virtually allowed brokers

I 778 the I 3,132 officers with gages had to share 13,605,91 1 l. between them”

¹⁴Doyle (1996), p.68: “Those of Bordeaux, whose main business was to liaise between wine-growers and merchants, described themselves in the 1760’s as “sixty poor families reduced to the lowest depth of misery by levies. . .made upon them, which they still owe. . . their fees are not enough to feed their families”

¹⁵Revue de Marseille et de Provence (1888), p.235 “ Les courtiers en marchandises, contre l’esprit et la lettre des règlements concernant les courtiers, avaient des commis sous le nom desquels ils achetaient et vendaient; se substituant aux négociants, et remplaçant les transactions sérieuses par le jeu de la spéculation. Ils trafiquaient sous le nom de leurs femmes, de leurs amis. Les courtiers d’assurance maritime prenaient des risques pour leur propre compte, au mépris de l’article 68 de l’ordonnance de la marine de 1681, et faisaient signer des polices par des employés, des affidés à eux. Ils n’exigeaient pas les primes de leurs assurés, mais les en débitaient en compte et obtenaient d’eux qu’ils assumassent d’autres risques pour lesquels des primes équivalentes leur revenaient. ”

to become banks.¹⁶

The sweeping effect of the Edict of 1709 did not come without challenges. First, the Edict of 1709 was not enforced uniformly throughout the country. Although it obviously affronted the 1673 *Ordonnance de Commerce*, a hierarchically superior law, the Edict of 1709 was upheld by the regional appellate court in the South (*Parliament d'Aix*) on several occasions, the most controversial case being the Mabilly affair in 1763.¹⁷ Moreover, this interpretation of the Edict of 1709 found approval from the highest actors in government, including the King and Parliament; the outcomes in the Lazare Aubert and Peirier bankruptcy cases—heard in 1732 and 1760, respectively—demonstrate this position.¹⁸ In contrast, preliminary evidence suggests that a decision of the *Conseil d'État* in 1724 overruled the 1709 Edict for the brokers in Paris.¹⁹

Other archival records confirm Marseille's exceptionality. Contemporaneous reports of Inspectors of Commerce are a dramatic example of this distinction: the Inspectors of Commerce were charged with submitting independent reports to the King about commercial conditions, including notable complaints and issues. Inspec-

¹⁶Emmanuelli (1979), p. 28 : “Tenir caisse, dans l'esprit d'Arnaud, signifie prêter et négocier son argent, acquérir des papier pour son compte, les endosser et les garantir ”. “ c'est surtout en qualité de banquiers sans le titre que les courtiers de change, après 1709, allaient donner la mesure de leur activité. ”

¹⁷Archives Nationales, Affaires étrangères, B III 282 :“ ils se sont strictement conformes jusqu'en 1709 a l'arrêt de 1673 qui défend a tous courtiers de tenir caisse, et de signer aucune lettre de change par aval. ” This document also reports that in 1735, motivated by complaints of local merchants, the Inspecteur du Commerce considering whether “ ces plaintes étoient fondées et s'il ne convenait point d'assimiler ces courtiers à ceux des autres places du Royaume ” decided to give continuity to the regime established by the 1709 Edict. The Mabilly dispute between a broker and his client was taken to the Parlement d'Aix in 1763. Confronted with accusations of abuses by brokers, the Procureur General du Parlement d'Aix ordered reforms but left untouched and unchallenged the 1709 regime. “ En 1761 et 1762, Mabilly, négociant de Marseille, fit plusieurs négociations de papiers avec Arnaud, Courtier de Change et de Banque, qui, suivant l'usage constant de la place, acquit une partie de ces papiers pour son propre compte, et négocia les autres pour le compte de Mabilly. Leurs accords furent exactement remplis. Cependant deux ans après, Mabilly tomba en faillite, et, cherchant à se raccrocher par quel qu'endroit, il voulut revenir sur les négociations qu'il avait faites avec Arnaud, et soutint que celui-ci avait pris sur lui des avantages injustes en faisant un commerce de banque, contre les lois du Royaume. En conséquence il demanda tout de suite à Arnaud 50,000 livres, pour restitution, bientôt modérées à 6988 et enfin à 3373. ”

¹⁸Archives Nationales, Affaires étrangères, B III 282.

¹⁹Calzaroni (1952) p.27 “ ...mais a Paris les courtiers n'avaient pas pris pour habitude de faire le commerce de banque, car un arrêt du conseil d'état du 24 sept 1724. . .”

tors were assigned to each major city, and the reports were kept in the *Archives Nationales* organized by city. For all cities save Marseille, the reports are thin and merely discuss banalities; however, the Inspectors' reports for Marseille run for many pages, and discuss the threats and benefits of financial consolidation, and conflicts of interest in financial intermediation.²⁰

Why is it so that this controversial Edict controlled only in Marseille and was rejected elsewhere? Though the political economy behind such decision making is beyond the scope of this paper, several plausible explanations can form part of the answer. First, in Paris, a nascent stock market and a few merchant bankers could have functioned well enough before the Edict such that broker intermediation after the Edict would not have added to the supply of financial services in any meaningful way. Also, in the South, many members of the establishment were heavily indebted to the brokers, and these financial interests could have influenced jurists to rule in the brokers' favor.²¹ Numerous court decisions and legal consultations survive to the present day, and demonstrate the courts' willingness to uphold brokers' rights. While courts of higher instances almost always found in favor of brokers, magistrate decisions would often split, and local courts' verdicts tended to run against brokers' interests.²²

Second, where the Edict did become controlling law, many merchant houses initially opposed this role for brokers and challenged the basis of the broker's interpretation of the Edict through litigation.²³ Several court cases spanning from 1720

²⁰Archives Nationales, Series F_12.968.

²¹Revue de Marseille et de Provence (1888) p.458 “ mais cette lettre prouve, après bien d'autres documents, en quelles mains était à cette époque l'argent des plus hauts fonctionnaires de la province. La plupart des parlementaires confiaient ainsi des sommes importantes aux courtiers et particulièrement à Verdilhon. Nous sommes loin de croire que cette considération brutale fut de nature à dicter leur arrêt, mais elle créait un lien entre le juge et le justiciable; elle faisait entrer pour quelque chose le juge dans le système qu'on lui demandait de proclamer illégal. ”

²²An interesting issue for future research is whether there was any correlation among broker office prices, patterns of brokers' loans, and court decisions.

²³One would be concerned that differences in brokerage rules across jurisdictions could generate forum shopping. I do not observe any case in which brokers from other jurisdictions try to reach out to Marseillan courts.

to 1770 challenge the 1709 Edict's interpretation. The notable cases as the Mabilly affair approached the issue narrowly by only contesting a specific broker excessive profit leaving unchallenged the conflicts of interests created by the Edict of 1709. An observer of the time remarked that there was a high turnover of merchant houses in Marseille and that, in contrast to the local merchant houses, foreigners thrived in Marseille. The explanation was that because foreigners usually acted as commission agents of merchant houses abroad and, being often in the payer position, they did not have to deal with the increasing power of the Marseille brokers. However, despite repeated challenges to the broker's new role as credit intermediaries, brokers successfully defended their market position. They thrived owing to their capacity to mobilize in their supported the indebted establishment class and their ability to influence the local chamber of commerce.²⁴

Though nearly all sources describe the Edict of 1709's transformational effect of the Marseille brokers market, it is possible that the Edict did not cause all brokers to move into roles as full financial intermediaries, but instead legitimized the current activities of some brokers. The overwhelming majority of archival sources confirms that until 1709 brokers were relegated to matching activities.²⁵ However, some evidence exists of pre-Edict of 1709 financial intermediation by brokers. A *Memoire contre les courtiers de la ville de Marseille* from May 23, 1707, accused eight brokers of violating the prohibition against trading on their own account. The brokers preferred to pay the fines than going to court, which meant to submit their accounting books to outside scrutiny.

From 1709, brokers did not restrict themselves to the traditional role of interme-

²⁴Revue de Marseille et de Provence (1868) p.265. " Le26 mars 1766, les négociants de Marseille, au nombre de 284, firent tenir à la Chambre un Comparant fortement motivé, dans lequel ils prouvaient que, loin de leur être préjudiciable, la faculté accordée aux Courtiers de faire la banque, leur rendait des services importants; rien n'était plus commode pour eux qu'une caisse ainsi ouverte à tous leurs besoins. " Future research could very likely uncover whether the set of merchants who publicly supported brokers overlapped with the set of merchants who were led to bankruptcy during the 1774 crisis.

²⁵Archives Nationales, Affaires étrangères, B III 282. " ils se sont strictement conformes jusqu'en 1709 a l'arret de 1673 qui defend a tous courtiers de tenir caisse, et de signer aucune lettre de change par aval. "

diation but were also dealing in their own account; in other words, they were allowed to perform proprietary trading.²⁶

3 Brokers as Modern Financial Intermediaries: Marseille 1709–1774

The scarce accounts of brokers in the early modern period gives the impression that brokers operated mostly, if not exclusively, in stock exchanges, quoting and transacting stocks and public debt.²⁷ By the eighteenth century, the few existing stock markets were restricted to Northern Europe, and only the largest merchant houses concentrated their wealth on stocks and public debt. The natural question to ask is on whom the majority of merchant houses relied for financing elsewhere. Who were the main actors operating private debt markets in the absence of supporting financial institutions such as stock markets and banks? And how close were these financial intermediaries to banks?²⁸

²⁶The ineffective enforcement of the ban on proprietary trading for brokers was not exclusive to France. Carlos et al. (2007), p.8 “ These resulted in 8 & 9 Wm III, c. 32, which limited the number of all kinds of brokers to 100, called Sworn Brokers, and forbade them from dealing in government securities without the Treasury’s permission. The law also prohibited these 100 *Sworn Brokers* from dealing in stock themselves. As we show below, not all *Sworn Brokers* followed the letter of the law.”

²⁷White (2003). Carlos et al. (2008). Mortimer (1761).

²⁸What sorts of arrangements and institutions can be considered a modern bank? The issue here is one of definition. Grossman (2010) considers two important characteristics: privately and corporate form of organization, Under this definition the first commercial bank in France was created in 1859 with Credit Industriel et Commercial). Obviously banking operations or functions resembling those of bankers have been performed since immemorial times. De Roover (1942), p.55 describes the operations of medieval Italian bankers in Bruges: “The financial activity of the Italian merchant-bankers in Bruges was mainly confined to dealings in bills of exchange and to loans to the count of Flanders, to the city of Bruges, and to great lords, temporal and spiritual. Medieval bills of exchange, it should be stressed, were not endorsable and were not discounted, but were purchased outright. Buying a foreign bill was equivalent to the purchase of foreign exchange. .. Banking was only one aspect of the many-sided activity of the Italian merchant-bankers. Even the Medici, the great banking house of the fifteenth century, combined banking and trade, but banking remained of secondary importance: trade came first; banking, next; and commissions, third. The Bruges documents entirely confirm the theory of Professor Gras concerning the lack of specialization of the ‘sedentary’ merchant in medieval times.” Besides, in the end of the medieval period, financial crisis led to a series of bankruptcies, and legislation reforms that banned banking in several European cities. Quinn (2004), p.153: “Authorities in Europe responded to the shock of bank failures in different

As discussed in the previous section, the Edict of 1709 opened the door for brokers to perform proprietary trading in addition to matching. The evidence gathered so far suggests that, in contrast to Paris and other major commercial centers, only in Marseille did this Edict prevail over the *Ordonnance Du Commerce* (1673) and its general prohibition of consolidation of financial services. Despite being the most important port city in the Mediterranean and one of the largest commercial centers in eighteenth century France, Marseille's banking institutions were only beginning to take shape, and credit intermediation was performed by brokers.²⁹ In addition, specie was particularly scarce, and this scarcity likely reinforced the central role occupied by brokers.³⁰ Brokers played an essential role in the financing of both international and domestic trade.

4 Analytical Framework: What Functions Did Brokers Perform?

A potential buyer of a bill may decide to buy from a broker or a nonbroker agent (e.g., a merchant house). If he chooses to buy from the broker, the parties must agree on the intermediation mode: whether the broker will simply match the buyer with a potential seller in exchange for a fee (matching), or whether the buyer will buy an endorsed bill from the broker (proprietary trading). Under matching, the broker does not take title of the bill and he does not guarantee payment but may suffer reputational costs if the bill is not paid. Under proprietary trading, in the context of

ways. Amsterdam, Barcelona, Naples and Venice created municipal banks that were not to engage in lending, so they would always have sufficient coin on hand (Usher 1943; Avallone 1997; Dehing and Hart 1997; Mueller 1997). Other places responded by outlawing deposit banking. In England, a royal monopoly on money changing prevented banking until the mid-seventeenth century (Munro 2000). In Antwerp, banking was outlawed beginning in 1489 (van der Wee 1977)."

²⁹Rambert (1954), p.490. " Ici point de banque comme à Venise, Livourne, ou à Amsterdam : c'étaient les principaux négociants qui faisaient la banque, avec l'aide des courtiers. " Calzaroni (1952), p.7: "un autre trait marquant, pour notre propos, consiste dans le fait, à première vue singulier, qu'il n'y avait pas de banque à Marseille et que tous les grands négociants y faisaient eux-mêmes des opérations bancaires."

³⁰Rambert (1954), pp.458.

the Joint Liability Rule the broker guarantees payment. The evidence is consistent with the assumption that, in general, brokers that acquired a bill had to have the bill endorsed to them by the seller and had to endorse to the buyer when selling. The *endossement en blanc* (the equivalent to how proprietary trading is performed by banks today) was strictly forbidden, although surviving accounts of contemporary merchants complained that the prohibition was not fully enforced. The top rectangle in the figure below refers to intermediation under proprietary trading, the middle refers to matching, and the bottom is direct financing:

This scheme suggests that the decision to use a broker and the choice of intermediation mode require an examination of which functions were performed by brokers in Marseille.

As noted, in the absence of banks, merchants, brokers and notaries shared the market. However, notaries only provided information services and thus provided neither liquidity nor risk pooling. Search, information and transaction costs can be mitigated by specialists who capture the economies of scale inherent in monitoring and information gathering. By publicly posting prices, intermediaries reduce the cost of matching and the likelihood of disagreement in bargaining. The probability of meeting customers may be higher for intermediaries than for customers meeting other customers—thus, the presence of a middleman saves time-consuming search. Through repeated interactions, intermediaries accumulate valuable information about their clients' valuations and may increase the efficiency in matching. Thus, intermediaries serve multiple functions: they help buyers overcome information asymmetries, explore arbitrage opportunities, and provide insurance and secrecy. In the following Sections we develop in greater detail each of these functions as they were carried out by the brokers of Marseille.

4.1 Guaranty

In the context of the Joint Liability Rule brokers could specialize in collateralizing bills of exchange—in other words, their endorsement served as a warranty that a buyer will be paid. By signing a bill, brokers put not only their reputation at stake but implicitly backed up the instrument with the broker’s own capital. Merchants considered the guarantee of a broker as a guarantee of the brokers’ Corporation.³¹

Several archival sources confirm that brokers endorsed bills of exchange.³² Merchants themselves acknowledged this practice on several occasions.³³ Moreover, brokers would not have found themselves swept up in the financial crisis of 1774 unless they carried large liabilities in the real economy.³⁴

The competence to guarantee transactions could arise in two ways. First, brokers could have taken advantage of their superior knowledge and could have more accurately determined the creditworthiness of bill and note issuers. Second, brokers could have enjoyed a comparative advantage in collecting debt to certify bills of exchange, and therefore demand a premium for serving as a guarantor in a transaction. This latter comparative advantage could be the result of an ability to collect bills from issuers at lower cost: if brokers could prevail in local courts, or better yet, could use

³¹Emmanuelli (1971), p. 27: “ Le papier est un signe représentative de l’argent, mais il ne multiplie les richesses. . . que lorsqu’il est solide. . . que lorsqu’on est sur de le réaliser. Et voila le grand avantage qu’opèrent la caisse des courtiers et la faculté qu’ils ont de se négocier à eux-mêmes, parce que la solidité du papier est relative à la solidité de la Caisse et de la Communauté des Courtiers. . . ” p.29 “ peut-être leur formation en corps de Communauté a-t-elle donne à certains disposeurs de capitaux l’illusion de la stabilité et de la garantie, le désir de leur confier des fonds a faire fructifier ”.

³²Archives Nationales, Affaires étrangères, B III 282 : “de ces effets il en était qu’ils se chargeaient de garantir et d’autres sur lesquels ils refusaient de mettre leur endossement ; ce droit de garantie était arbitraire et le taux n’en était déterminé que par les facultés ou les besoins des parties contractantes ”

³³Archives de la Chambre de Commerce et Industrie Marseille Provence. A *certificat* of 31st July 1764 signed by 115 merchant houses confirmed that “ les courtiers et agens de change de cette ville acquièrent pour leur compte les papiers de commerce que les négociants leur remettent, sous la déduction du change entre eux convenu et leur droit de censerie, pour réduire ces papiers au comptant. . . les courtiers devenus ainsi propriétaires des papiers les négocient ensuite à leurs risques et pour leur compte. . . sans que les négociants se formalisent de ces secondes négociations ” This understanding was reinforced in another *certificat* of March, 1766 - this time signed by 288 merchants.

³⁴Emmanuelli (1979), p.43. If they were not endorsing then they would not have gone bankrupt, says Mabilly.

extralegal means to coerce payers, a buyer of a bill could be confident in recovering payment. Also, comparative advantage could come from overall financial strength, and thus a better ability to absorb losses from suit or re-exchange. Small, unknown merchant houses whose endorsements may not have been of great value could now reach for financing outside their networks by having a well-known broker endorse it.

There is some evidence of proto-regulation of liquidity: an Edict of December 14, 1638 required brokers' Corporation to establish a special fund. The burdensome contribution—brokers were supposed to contribute initially one fourth of total profits—and practical considerations of collecting sensitive performance data probably contributed to the fund's extinction after only a few months of operation.³⁵ In Marseille after the 1709 Edict, credit intermediation by brokers rekindled concerns over solvency, and the common-fund regulation was reestablished early in the eighteenth century.

The use of leverage could also have a significant impact on brokers' ability to take on more business and increase profits. The brokers' Corporation were allowed to borrow money from the public.³⁶ In figure 6 I depict the distribution by year of their loans. The nominal values were adjusted by the changing content of silver in the French currency.³⁷ Contrary to general accounts about brokers—which may be more relevant to brokers outside Marseille—brokers in Marseille were quite successful in raising capital from the public, and raised approximately 1.5 million *livres* from 1700

³⁵Genevet (1845), p.61: “Ce règlement se condense dans les deux points suivants : . . . 2° Créer un fonds commun par le versement d'un quart des gains et profits se faisant trimestriellement les affaires du trimestre.. ” “ En effet, il n'y avait pas quatre mois que la caisse commune était fondée, qu'elle était- violemment attaquée et finalement supprimée, ne laissant de sa courte existence qu'un principe acquis pour l'avenir. . . C'est que, Messieurs, vous l'avez remarqué, la perception de l'impôt du quart se faisait sur état des affaires traitées par chaque courtier de change. ”

³⁶The Crown established many conditions prone to support brokers' borrowing from the public, including giving those who lent secured claim over the offices in case of bankruptcy. Genevet (1845), p.79 :“Et, pour faciliter l'emprunt des deniers nécessaires pour l'acquisition desdits offices, Voulons que ceux, qui prêteront leurs deniers, aient privilège spécial sur lesdits offices et droits en dépendant à l'exclusion de tous autres créanciers, sans qu'il soit besoin d'en faire mention dans les quittances de finance qui leur en seront délivrées. ”

³⁷De Wailly (1857).

to 1770.³⁸ Figure 2 displays both the number and value of new loans by the brokers' Corporation. In principle, these loans were to be used to pay the price of new offices, existing offices, and fees and taxes imposed from time to time by the King upon the Corporation. However, as early as 1702 this prohibition may not have been fully enforced and, in practice, loans were used toward broker's general expenses arising from their trade.³⁹ Brokers' opponents pointed out that these loans were crucial in setting up the conditions for broker abuses. It is therefore important to know whether the loans were used to finance the purchase of offices or to leverage their operations. The value (but not the number) of new loans peaked around 1709 when the Edict allowing brokers to expand their activities was enacted.

At least two empirical patterns would be consistent with the "guaranty" hypothesis. Whenever there is nonpayment we should observe that brokers are called to pay dishonored bills and notes at a disproportionately higher rate than the remaining endorsers. This would imply that, compared to other nonbroker endorsers, brokers would appear more often in the re-exchange bills or they would appear more often in the court records related to defaulted bills. Unfortunately, very few re-exchange bills have survived. However, the court records (an example is portrayed in Figure 2) will make it possible to test whether brokers were the strongest link in the endorsement chain and would therefore be sued at higher rates than that of a random defendant. For instance, the court appearance pattern for Antoine Ravel, a broker from 1745-1773, could be checked against that of a random defendant whose surname starts with R (at present, I only have access to records of plaintiffs whose surnames starts with R). Figure 2 shows an example of one of these court hearings index. The "guaranty" hypothesis does not imply that bills signed by brokers would be of higher quality but

³⁸Bien (1996) p.487 claims that the agents de change were never able to create a bourse commune because their revenues had to be kept secret and there was no way to enforce individual contributions. Therefore they could not sustain collective debt, he concludes "for that reason, and in the absence of effective guarantees for rights and revenues, the offices went at a fairly modest price when sold at all" again 491: "the brokers had not yet contracted collective loans".

³⁹Archives de la Chambre de Commerce et Industrie Marseille Provence. LV 31, Assemble Générale, 6 janvier 1702. "les sommes nécessaires pour subvenir aux frais et dépenses que l'occurrence des affaires a requis". LV 31, Assemble Générale, 6 Janvier 1702.

that their recovery rates would be greater than average.

A preliminary examination of a sample of Maison Roux's bills of exchange reveals that only a dozen bills out of a few thousand were endorsed by brokers. This result is not a product of attrition in this particular sample, since in the subset of court audiences in which Maison Roux was the plaintiff, it did not seem that brokers were sued more often. This suggests that at least in the case of Maison Roux's dealings, brokers were not asked to perform a "guaranty" function. However, it is not possible to generalize this finding unless the court records confirm the same patterns in the dealing of brokers with other merchant houses.

4.2 Information

Brokers may also perform the function of "network intermediaries."⁴⁰ There are several pieces of evidence that would be consistent with brokers primarily relying on information as their comparative advantage.⁴¹

Brokers were tempted by at least two incentive problems as information providers. First, what incentives must brokers have to invest optimally in acquiring information? Because investment in broadening the network of clients and acquiring soft information about them is noncontractible, the expectation of the commission may be insufficient to generate the optimal effort. By allowing proprietary trading, brokers themselves can fully capture the surplus they generate. Brokers have often a reduced risk of adverse selection by transmitting private information about investment opportunities. But once the optimal effort is employed to learn about clients' creditworthiness, how can brokers be prevented from trading on this private information to the detriment of their clients? Privileged information may potentially create

⁴⁰Rauch (2001), p.1195: "Network intermediaries are distinguished by what Yung Rhee and Christine Soulier (1989, p. 25) call their "deep knowledge" of the capabilities and preferences of the sellers or buyers in their networks."

⁴¹Archives de la Chambre de Commerce et Industrie Marseille Provence. LV 153, piece 33, p.96 : " la confiance qu'ils n'auraient point dans le négociant le plus accrédité, ils ont dans les courtiers qui jouissent d'être légal et qui sont dans le cas de connaitre intimement les facultés et la nature des entreprises de ceux auxquels ils font des avances"

a lock-in situation for clients reducing brokers' incentives to optimally perform. The Joint Liability Rule solves this classical moral hazard problem facing intermediaries because brokers bear directly the risk from the outcome of the transaction.

If brokers had in fact superior knowledge, how was it acquired and transferred? "Family" offices—that is, transfer of offices between relatives—and long average tenure in office would be consistent with brokers as information providers. From several archival sources I was able to reconstruct the history of over half of the 60 broker offices from 1670 to 1791 and a preliminary analysis suggests that the model of "family" offices was more prevalent in the pre-Edict of 1709 period. Of the 120 changes in office ownership from 1692 to 1709, 40 percent were between family members; in contrast, of the 180 transactions post-Edict of 1709, only 15 percent were between family members.

If one assumes that merchandise was a more "homogeneous" asset compared to bills of exchange, and did not require quality certification, the information hypothesis would predict that the offices turnover for merchandise brokers should be higher than for exchange brokers.

A second way to test the information hypothesis is to compare Marseille office valuations with those of brokers in other regions where only matching was allowed. When brokers can only offer matching as a service, the accumulation of information is central. When both matching and trading are offered, brokers can offer guarantees as an additional source of revenue. Information about their clients' creditworthiness may be even more important. The hypothesis would predict that the turnover rates for brokers in Paris and Marseille would diverge after the Edict of 1709. A visual inspection of Table 2 and Figures 4 8 9 does not support such a conclusion.

Under the "information" hypothesis, bills sold by brokers would have a lower probability of default. The "guaranty" hypothesis does not imply that bills signed by brokers would be of higher quality but that their recovery rates would be greater than average. Although several anecdotes support that bills signed by brokers were "safer" it is not possible to distinguish from the interpretation of these anecdotes whether

their “safety” is due to the “information” or “guaranty” hypothesis.⁴²

The 1774 crisis, which was supposedly caused by brokers abusive practices and pushed many brokers into bankruptcy, could also provide qualitative evidence on whether brokers primarily served as guarantors or as information providers. If brokers’ failure were due to systematically faulty decisions on the selection of bills, immediately before the crisis we should observe an abnormal number of protests of bills sold and endorsed by the brokers. If instead brokers’ guaranty function was more important, default of only a small fraction of the bills they sold and endorsed could lead to their failure.

We can also draw some inference on what brokers did by looking at a different type of source. For each broker with whom Maison Roux dealt, the Chambre de Commerce et Industrie Marseille Provence archives kept a folder called *compte de censerie*, with the accounting information of entry and exit of bills and additional information on the number of bills, value, place of settlement and discount or exchange rates. For instance, Figure 1 shows that on January 5, 1745, the broker Ricaud provided Maison Roux with a bill at par to be paid in Toulouse. Later, on January 28, Roux sold at a 0.5 percent discount to the broker two bills payable in Bordeaux. Using the information contained in these *comptes de censerie* I plan to identify which bills came from brokers and whether the characteristics of these bills differ from the nonbroker bills. If Maison Roux viewed its brokers as gatherers of information, then brokers’ bills should have been issued in places where Maison Roux had fewer business partners, or by unknown merchant houses who were not engaged in repeated business. More importantly, if brokers had superior knowledge compared to Maison Roux, these brokered bills should have been protested less often. By identifying the percentage of Maison Roux’s bills that were mediated by brokers we will have an idea of the importance of brokers to merchant houses.

⁴²Rambert (1954), p. 543. “c’est sur le courtier que reposaient les risques de l’affaire engagée : si l’une des deux parties contractantes devenait insolvable, sa responsabilité était engagée à l’égard de l’autre ” “Tout le commerce du courtier consiste à prendre les papiers a un change haut et ensuite les placer a un change plus bas: cela leur est très-facile, parce que c’est à eux qu’on se fie”

Given that the previous literature claimed that only small, unknown merchant houses without connections used brokers, this data revealing that a large and international scale merchant house such as Maison Roux constantly used brokers would suggest a novel explanation about the brokers' function.⁴³

4.3 Liquidity

If brokers are allowed to trade on their own account, they can additionally provide liquidity services by managing their inventory of bills. Brokers provide no extra liquidity when matching, as they do not use their trading inventory to “make markets” in less liquid bills. Under this explanation of brokers' role in intermediation, we would expect a stratification among brokers, with wealthier brokers who had more personal funds, or more access to the brokers' Corporation funds to leverage, performing proprietary trading, and less successful brokers performing matching.

Liquidity services would have been important in Marseille given the mismatch in maturities of bills coming from import and exports. Marseille's exports to its main commercial partner, the Levant, were paid in long-term bills. In turn, Marseille imports coming from various places had to be paid in short-term bills. According to accounts in merchant's memoirs, the *courtiers* were instrumental in bridging the mismatch of bills' maturities in typical situations such as the commerce of textiles: Marseille buys textiles from the Languedoc paying in short-term bills, and exports those textiles to the Levant, taking in long-term bills.⁴⁴ In performing its liquidity

⁴³Emmanuelli (1979), p.47 : “Ainsi les contemporains le dissent, ce sont les maisons fragiles qui ont eu recours aux courtiers. On ne voit pas pourquoi ni comment les grandes firmes, qui disposaient de vastes et solides réseaux commerciaux et financiers, auraient pu tomber sous la coupe des courtiers, si perfectionnées fussent leurs techniques. Le système ne pouvait les intéresser que pour leurs opérations dans Marseille. ”

⁴⁴Emmanuelli (1979), p. 24: “le vice est donc dans l'exploitation des marchandises que Marseille paye comptant ou dans 2 et 3 mois...et dont elle n'est remboursée que par la vente des retours du Levant...elle ne traite avec le Levant, son débiteur majeur que pour 9, 12 et 15 mois.” “ Levant, billets qui, par leur nature, ne peuvent se “ négocier ailleurs qu'à Marseille, et que, comme leur terme est ordinairement d'un an, et souvent de quinze à dix-huit mois, il serait “ difficile, pour ne pas dire impossible, de réaliser dans l'instant t cette sorte de papier et de le convertir au comptant, ainsi que les Courtiers le font par le moyen de leur caisse ” “ Marseille , disait-on pour les Courtiers, achète des “ draps qui se fabriquent en Languedoc pour les vendre “ ensuite dans le Levant. Elle achète

functions, brokers increase welfare by reducing the amount of liquid assets merchants would need to reserve to meet the same transactions. Without brokers, the optimal allocation of capital is distorted: some companies would have to maintain large stockpiles of liquid assets to self-insure against unpredicted fluctuations, or may be forced to dispose of assets in a fire sale to meet liquidity needs. With brokers offering a source of short term debt, we should expect to see in the data a smoothing effect on the implicit discount rate of bills of exchange and the merchandise prices themselves.⁴⁵ Not only may the capability of managing an inventory of bills but also brokers' privileged information could account for such a pattern in the data.

To test whether this function was relevant one would like to have high frequency information on brokers' ledgers to test whether there is reversion to mean in the inventory. However, to the best of my knowledge, the surviving ledgers are fragmentary and immediately preceded a bankruptcy event.

Contemporaneous sources describe such transactions as an ordinary broker activity. According to a *memoire* a typical function of the broker would be to provide short-term bills or currency in exchange for long-term bills of exchange and a 1 percent fee.⁴⁶ Almost all merchants would have an account with the broker and compensation would be processed daily. Brokers were able to discount bills thanks to the funds deposited by private investors.⁴⁷

comptant, fait tous jours des avances et vend à un terme très-long, quelques fois de dix-huit mois. Pour se procurer l'argent nécessaire, les Négociants de Marseille font des billets à ordre, " qui ne peuvent se négocier que sur cette place, et qui " s'y réalisent sur-le-champ, au moyen de la Caisse active " des Courtiers. Point de ressource qui puisse remplacer " celle-là. " The reasons of the mismatch in bills' maturities are beyond the scope of this paper, but one could speculate that it is due to differences in bargaining power.

⁴⁵Archives de la Chambre de Commerce et Industrie Marseille Provence, Pièce 15. " Si (le négociant de moyenne envergure) est presse par quelque payement a faire, il n'a plus besoin de dégrader le prix de sa marchandise pour se procurer des fonds, il attend le tems favorable de la vente...ses fonds accroches dans l'étranger ou renfermes dans ses magasins lui en interdiraient la faculté; par la caisse des courtiers tout obstacle cesse, ses projets s'exécutent. "

⁴⁶Archives départementales des Bouches-du-Rhône, C3988

⁴⁷Emmanuelli (1971) p. 30. : " a la place de ces dépôts, le courtier leur remet des papiers de la place ou des billets a longue échéance au cours du change usité, qu'il peut endosser moyennant $\frac{1}{2}\%$ "

4.4 Secrecy

Brokers had always fiercely defended the privacy of their operations. One can easily understand, since disclosure rules reflected more the Crown's efforts to collect more taxes rather than a genuine concern with transparency. As discussed earlier, broker concerns over the disclosure of clients' commercially sensitive information likely helped overrule the Edict of 1638 establishing a common fund, and cases exist where brokers have preferred to pay fines rather than disclose information.⁴⁸

But beyond the internal advantages to secrecy, clients also have benefited from the ability to transact discreetly through a broker. According to accounts of the time, merchants would send a bill of exchange to the broker with the authorization of looking for a provider of funds.⁴⁹ The broker would accept funds from an investor and pass those funds to the bill issuer without disclosing the investor's identity. The broker would endorse and pass on to the borrower. The lender would know the identity of the broker and borrower, but the borrower would not know the identity of its financier. Why was such secrecy important and how widespread was this practice?

4.5 Pooling

A preliminary analysis of some brokers' ledgers kept in the bankruptcy records reveals that some brokers created their own demandable debt: many merchants would have a *compte courant*, or current account, with a broker. Some brokers, leveraging their reputation, issued *mandats*, or I.O.U.s payable on demand, which circulated as a means of payment. Those who opposed the *courtiers* complained that they usurped the role of a public bank by issuing papers that worked virtually like money.⁵⁰ Each

⁴⁸Genevet (1845), p.62: " Or, la remise es mains des syndics de l'état de ces opérations était une simple divulgation des quantités négociées et des noms des parties engagées. On s'aperçut vite que des indiscretions avaient été commises ; il y eut des protestations des clients, des refus de traiter dans ces conditions de quasi-publicité, et au bout, des réclamations a Sa majesté pour remédier aux abus créés par l'Edit de Décembre 1638. "

⁴⁹Savary (1680), II, 96 Parère XIV.

⁵⁰Emmanuelli (1971), p.27, Journu: "Il suit de la que le papier ne represente que du papier et jamais de l'argent. . . Cette seule operation dispense le courtier et egalement tous les debiteurs d'avoir de l'argent. Elle reduit le courtier a la seule fonction de banque publique et elle lui fait perdre la

brokers could be dealing with as many as two thousand clients.⁵¹ A preliminary examination suggests that brokers served a varied clientele both in social and professional classifications.⁵² The variety and quantity of clients may have allowed brokers to pool funds and diversify risks.

5 The Effect of the 1709 Edict

In this Section I ask two related questions: 1) What was the effect of the 1709 Edict on office prices, conditions, and turnover?; and 2) Was the consolidation of financial services, i.e., brokers' ability to serve as a market maker and as matchmaker, detrimental to the functioning of this market?

This expansion of activities led to an increase in broker business volume, profitability, and political clout. Rough estimates of the time suggest that in 1764, 15 million *livres* in transactions each month were settled in Marseille with the aid of these brokers using less than 600 thousand *livres* of currency.⁵³ To put this in perspective, 375 Christians and 20 Jewish brokers, and over 1000 unregulated brokers (none of which approved or overseen by the courts) operated in the burgeoning financial center of mid-eighteenth century Amsterdam while London relied on about 100 sworn brokers.⁵⁴

qualite de caisse d'escompte ” “ le corps avait même introduit et répandu sur la place un nouveau moyen de paiement.”

⁵¹A quick look at the court records for the bankruptcy of Verdilhon, one of the most powerful brokers, reveals that he had roughly 2000 creditors.

⁵²Anecdotes suggest that brokers served not only the most powerful merchant houses but also the less privileged classes : “ les gentilshommes, les bourgeois, les gens d'affaires, les veuves, les administrateurs des biens des pupilles, et des mineurs s'adressent (aux courtiers) aveuglement”. Emmanuelli (1971), p. 33. Emmanuelli (1971), p. 162, pièces 7, 22: “c'est par cette confiance (dans les courtiers) que les habitants de Marseille et de toute la province, les personnes de tout état et de tout sexe, riches ou pauvres, trouvent toujours dans la caisse des courtiers 10 à 12 millions de papiers de tous les négocians de la place été même des places étrangères, sur lesquels ils peuvent à leur choix prêter leurs fonds au commerce. . .les négocians obtiennent un crédit beaucoup supérieur a celui qu'ils obtiendraient par eux-mêmes ”

⁵³“ . . .payent avec aisance environ quinze millions d'échéances, chaque mois, avec moins de six cent mille livres d'espèces réelles.”

⁵⁴Encyclopédie méthodique (1783), p. 26, Carlos et al. (2007).

Also, information on office turnover, prices, and offices' conditions from 1673 to 1777 supports the idea that broker profitability improved after the 1709 reforms. The introduction of proprietary trading added a new revenue source beyond the statutory fees on transactions: brokers could also earn the difference between the price demanded by the borrower and the price offered by the supplier of funds.⁵⁵

If the price of the office reflected the current goodwill and the expected future profits, then laws and court decisions broadening their activity should have had an impact on the price offices were sold. Based on a sample of 92 office transactions, preliminary evidence presented in Figure 6 suggests that office prices slightly increased between 1710 and 1770.⁵⁶ In contrast, Doyle (1995) research shows that prices of most offices in other occupations declined over this period.

Future research could shed light on whether the post-1709 increase in office prices was due to the Edict of 1709 or other events. A comparison between pre- and post-1709 office prices in Marseille and Paris could furnish evidence to support this claim. Anecdotes on office prices in Paris suggest that office prices were decreasing or remained constant.⁵⁷

⁵⁵Calzaroni (1952), p.67. "Mais depuis que les Courtiers avaient développé leur système, il fallait prendre les papiers chez eux de seconde main, le courtier ne les donnait pas au change de 6%, comme il l'avait pris lui-même, il voulait le donner a 4% pour en gagner 2. . . . Les opérations de banque qui se faisaient annuellement a Marseille étaient évaluées a 100 millions. Le courtier prélevant sur ces opérations leurs droits de censerie ou courtage évalués a 2 pour mille- repartis moities pour le vendeur et moitie pour l'acheteur) feraient un bénéfice de 200.000 livres, a repartir entre 8 ou 9 agents de change."

⁵⁶Revue de Marseille et de Provence (1868), p.147 " Par contre, les offices qui étaient à 22,000 livres en 1709, montent à 36,000 en 1723 et dépassent 40,000 un peu avant l'adjonction des 14 nouveaux titulaires en 1753. " In 1771 a royal edict ordered for tax purposes a self-assessment of the office values. The brokers Corporation estimated the offices' were value at 40 000 *livres*, the transactions around 1771 uncovered by my archival research reveal a similar amount. " Au mois de février 1771 parut un Edit soumettant tous les Officiers du Royaume à l'impôt annuel du centième denier, ou un pour cent sur la valeur présumée. Cette évaluation, laissée gracieusement à la discrétion des intéressés, fut fixée par les Courtiers de Marseille, réunis en assemblée générale, en décembre de la même année, a quarante mille livres. "

⁵⁷Bien (1996), p.487 claims that during the war of Spanish succession not a single of the 96 newly created in the provinces could be sold for 10 000 *livres*. In Paris, the prices of newly created offices had to be decreased from 30 000, to 15 000 and finally to 10 000 so that they were buyers. "In 1714, with no more than 37 Parisian offices actually occupied, the total yield to the government had been a little under 750 000"

Comparing broker office prices to the prices of notary offices is another way to value the contribution of proprietary trading to broker office value. Notaries could only perform matching, and it was not uncommon to see on the records short-term loans (obligations) drafted on the notary books. Because a broker office would sell for five times the price of a notary office, brokers in some cases would buy notary offices and illegally conduct brokerage business through it.⁵⁸

Figure 5 shows a specimen of records detailing the economic condition of those leaving and entering the office, the date of the transfer, and the price paid for the office. For instance, Lafont, a buyer, had ten children, was supposedly wealthy, and inherited the office from his father in 1692. Durbec, by contrast, had limited resources and paid 17,600 *livres* in 1702 for the office previously owned by Rosset, who filed for bankruptcy.

Though office prices increased after the Edict of 1709, not all broker offices were financially successful. Figure 15 presents office sellers' wealth distribution, as measured by their described financial situation at the time of office sale. Although more observations are required to perform a test of equality of distribution, this preliminary evidence suggests that the distribution of wealth becomes more dispersed in the post-Edict of 1709 period compared to the pre-Edict period. This is in line with expectations regarding the risks of the business: profitability would suffer when brokers are limited to low-risk businesses such as matchmaking. Once brokers can take active part in transactions, risks increase, so it follows that that the outcomes (wealth of sellers) will begin to diverge from the mean. However, this distribution does not show the net gain or loss in wealth over the period of ownership of the office; the initial

⁵⁸Revue de Marseille et de Provence (1868), p.22 “ Que tous ces gens-là leur ôtent leurs pratiques sans “ contribuer aux charges, et que, moyennant 4 ou 5000 “ livres que coûte un office de Notaire, et même sans “ charge, et sous le nom d’un Notaire, ils ont les revenans “ bons d’un office de Courtier qui coûte 19 à 20,000 livres. “ Qu’à la vérité les Notaires, dès qu’ils sont revêtus de “ leurs offices, peuvent faire toutes sortes de contrats, “ mais qu’ils sont astreints par les ordonnances à des formalités; que leurs contrats doivent être dans la forme “ des actes de Notaire, dans leur main courante, avec “ l’intervention des témoins , sans quoi l’authenticité et “ la publicité requise leur manque; que d’ailleurs ils ne “ peuvent faire convenir les parties ; que c’est une faculté “ inséparable des Courtiers. ”

wealth of the seller at acquisition will likely have a large impact on wealth at the time of sale.⁵⁹

Also, information on office turnover could help to understand the market structure dynamics and examine the claim that market making was a profitable but risky business resulting in high levels of failure and big players sustained by greater leverage. Contemporaneous sources put forth evidence of higher turnover by claiming that between 1692 and 1709 there were 37 changes of office, or an average of 2 per year. Between 1710 and 1752 there were 148 changes, or an average of 3.5 per year. However, the preliminary results in Figure 3 do not support that after the 1709 Edict office's turnover increased. On the other hand, the widening disparity of outcomes shown in figure 10 supports the view that the 1709 reforms increased the risks (and potential benefits) of the brokerage business.

The distinctive feature between market makers and matchmakers is that the latter take in participation fees but do not take part in the transactions themselves, whereas the former set ask and bid prices at which they stand ready to trade. The market maker enables trade by virtue of his inventory and is able to take only one side of the market.

Under which conditions will a buyer prefer guaranty, matching, or market making? Since the trading procedure determines the distribution of gains from the trade, an obvious issue of interest is which intermediation mode yields higher surplus to buyers or sellers. Numerous papers in the literature attempt to address this question, both theoretically and empirically. In general, most of the literature assumes a fixed regulatory regime in which the middleman can either act as matcher or market maker. Under a given regulatory system, what would be the optimal fee structure to induce efficient intermediation, and how do different compensation schemes affect

⁵⁹According to a memoire in 1726, 41 of the 69 offices sold since 1710 were due to the owner falling in indigence or insolvent. Archives de la Chambre de Commerce et Industrie Marseille Provence, LV 7. *Revue de Marseille et de Provence* (1868), p. 146. “Beaucoup d’appelés et peu d’élus. Telle était du moins l’opinion du subdélégué de l’Intendant de Provence qui, consulté par son supérieur, lui écrivait en termes un peu crûs: “La fortune éclatante de quelques-uns de ces industriels “ fait casser la tête à tous autres. J’en ai vu beaucoup “ réussir parce qu’ils ne craignaient pas le Diable ”

the division of surplus between buyers and sellers? Another strand of literature asks which intermediation mode a benevolent social planner would implement. Wolinsky and Rubinstein (1987) show that a trading procedure in which the middleman has to assume ownership of the good in the process of trade biases the distribution of the gains in favor of the buyers. In contrast, when middlemen trade by consignment, that bias disappears, and the gains to sellers and buyers are distributed symmetrically. This intuition is straightforward: when the middleman assumes ownership of the good the price the seller paid is already sunk and he bargains with the buyer over a smaller surplus. It is not clear these findings would hold under different assumptions about the information environment, for instance, search costs, heterogeneity in the distribution of valuations and private versus common knowledge.

Traders with little gains from trade (such as middle valuations) may not be willing to pay an intermediary and may go on a frictional market but if there is enough heterogeneity (high and low valuations) the two markets may coexist. Because search may result in a failure to match, a socially inefficient outcome, traders with very high or very low valuations are the ones with higher gains from trade and would prefer to resort to an intermediary who stands to trade at the set prices.

The interesting question is what happens when intermediaries are permitted to determine endogenously the extent of their activity, as it was the case from 1709 to 1777 in Marseille. Theoretically, Yavas (1992) shows that the expected profits for middlemen are higher when marketmaking rather than matchmaking when the valuations of the agents are common knowledge. Can we observe that after the 1709 Edict, markets were predominately dominated by traders? A broker in Marseille could not only take sell and buy orders from his clients (matchmaking) but he could also sell and buy bills of exchange at the discounts he sets. More importantly, he could use the information about clients' valuations from his matchmaking activity and estimate the market demand and supply when setting his ask and bid prices in his market-making activity. The discussions among merchants (*memoires*) and the court's deliberations (*arrêts*) bear a striking resemblance to recent discussions over

the role of proprietary trading desks in investment banks and whether and to what extent such activities should be regulated.

6 The 1774 Crisis and the Decline of Brokers

As discussed above, the courts of Marseille routinely sided with brokers. The internal deliberations during the Mabilly affair also show the protection brokers enjoyed from the courts.⁶⁰ In fact, the Chamber of Commerce was dominated by relatives or close members of brokers.⁶¹ Several sources demonstrate that brokers lend funds to the political and judicial authorities, and to the commercial elite.⁶² However, this privileged position began to erode in 1770 with the election of the brokers' enemies to the Chamber of Commerce. This period of modern financial intermediation by brokers came to an end with a financial crisis in 1774 and an eventual reversion to the pre-1709 regulatory scheme.

In 1774 the bankruptcy of a few brokers provoked a chain of insolvency and protests among the surviving brokers and their clients. Brokers were blamed for the crisis, and they became the target of vehement criticism. Accounts from the period condemn brokers for transacting on their own account, and endorsing bills of exchange, which in the views of many led to the crisis.⁶³ Though the triggers of the crisis are not fully understood, small shocks could have propagated through the system due to the joint liability faced by brokers. When called to make good protested bills, brokers lacked liquidity and had to suspend their payments. The failure of one

⁶⁰Archives de la Chambre de Commerce et Industrie Marseille Provence, H236, deliberations du 20th August and 19th December of 1765, and 5th March 1767. B 48 to the Contrôleur General et Duc de Praslin in 5th November, 1767: "L'incertitude que cette contestation jette sur l'état des courtiers fait déjà chanceler toutes les opérations de notre commerce".

⁶¹Emmanuelli (1979). Pièce 9, p.14, 18 and pièce 6.

⁶²Emmanuelli (1979), p.48: " enfin, ils fournirent a l'Administration du pays de Provence les sommes dont elle avait besoin pour des achats de bleds"

⁶³"mais en 1774, de nombreuses faillites se déclarent à Marseille. Elles étaient le fruit des excès commis par les courtiers. Ces derniers, à la fois intermédiaires et commerçants, figuraient en bonne place parmi les faillis, et, comme leur système rendait tous le commerçants solidaires, la faillite des uns entraîna celle des autres"

endorser in the chain may have led to increasing uncertainty and higher discounts. Shin and Schnabel (2004) present a model in which the joint liability endorsers called to make good protested bills engage in asset fire sales, depressing prices in the market, feeding insolvency, and leading eventually to systemic crisis.

In a few months at least 100 (probably many more) merchant houses filed for suspension of payments or bankruptcy protection, but in less than six months after the first bankruptcies were filed, many merchant houses went back to business. A preliminary analysis of the balance sheets of few merchant houses that filed for bankruptcy during the crisis does not show considerable imbalances between debts and assets (for instance, the balance sheets of Pierre Verdilhon, the most affluent broker).⁶⁴ However, a typical merchant house could be an endorser on hundreds of bills a year, which as a secondary obligation on the instrument—makers of bills would be primarily liable—would not be captured on the balance sheet; if the broker was part of the endorsement chain, it would be enough for a few to be in default to lead to suspension of payments or even bankruptcy.

An analysis of the balance sheets of those who filed for suspension of payments in the beginning of 1774 reveals that the creditors and debtors came from the same pool and had debts with each other, the bankrupt brokers were relatively young, and the first merchant houses to fall were relatively new too.⁶⁵

After the 1774 crisis, the government bailed them out by authorizing the Chamber of Commerce to borrow money to reimburse the old brokers for the price of their offices, 40,000 *livres*.⁶⁶ The reaction against the brokers resulted in 1777 in the abolishment of the sixty existing broker offices and the installation of commissioned brokers (their appointment was limited to five years), elected and subordinated to the control of the Chamber of Commerce. The Edict of January 1777 was only fully

⁶⁴Emmanuelli (1971), p.87 reports Verdilhon's had 5 976 699 *livres* in debt and 6 590 983 *livres* in assets. This estimate does not include the 2 023 584 *livres* worth in bills that were endorsed or guaranteed by Verdilhon. P.92. Verdilhon's situation was not unique among the bankrupt brokers, their balance sheets hid the contingent liabilities.

⁶⁵Emmanuelli (1971), p.53. "Les faillis doivent aux faillis, c'est l'essentiel"

⁶⁶Déclaration du Roi of 25 octobre 1777 interpreting the Edit of Janvier 1777

enforced in the beginning of 1779, and thirty-two of the sixty abolished brokers were elected to remain in their offices. From then on, brokers were not allowed to endorse bills of exchange—that is, they were no longer allowed to perform proprietary trading, only matching.

Figure 7 plots by year the number of brokers (excluding merchandise and insurance brokers) with whom Maison Roux transacted, and the total value of their operations in *livres*. These values do not reconcile completely with the overall bill-of-exchange trade conducted by Maison Roux. Although clear trends are not noticeable and the evidence is fragmentary (there is no data available for some years), the 1777 brokers' reform led to an intense period of broker activity, dispelling the claims that commerce was disrupted by the 1777 reform? Brokers claimed that the ability to perform proprietary trading was key to provision of liquidity to merchants engaged in long-distance trade. Merchants would receive bills as a payment for exports and would discount these bills to finance further exports. Especially with regard to those sectors in which brokers were most active or those in which brokers claimed to be essential, it would be interesting to check whether there were changes in the volume of textiles and wheat, which were main imports and exports, respectively. For instance, Marseille buy with cash textiles from Languedoc to sell in the Levant, receiving long bills. Lyon buys silk and tissue-related products from Marseille, paying in one year; did the 1777 reforms affect the financing of these activities?

Though contemporaneous sources point out several issues with brokers' activities in the commercial-finance market, the reasons behind the financial crisis remain unclear. On the one hand, contemporaneous sources praised the brokers for having supplanted the scarcity of money and for having promoted a sort of *democratization du commerce* by allowing small merchants to borrow. On the other hand, sources complain of abusive practices. Brokers faced fierce accusations of abuse and fraud. Some complaints mention short selling or front running with debt; other complaints criticized *endossement en blanc*—that is, selling a bill without placing a signature on

the back, and therefore skirting secondary liability on the instrument.⁶⁷ According to complainants, this practice harmed endorsers who would be unaware to whom their bills were sold.⁶⁸ Why sources focused on this aspect of *endossement en blanc*, and not on the failure to assume liability on the instrument in case of default, is unclear. Brokers were also accused of passing insolvent bills and keeping the “good” ones, and of colluding and forming a cartel.⁶⁹ Finally, brokers were criticized for reaping “abnormal” profits at the expenses of their clients by blurring the boundaries of matching and proprietary trading: brokers would not only charge the 0.2 percent allowed by law but would also earn the surplus of the exchange, the difference in valuation of buyers and sellers.

⁶⁷Delamare (1809), p.17 “ les négociations abusive. C’est le nom qu’il donne ‘a celles dans lesquelles un vendeur s’engage ‘a fournir, ‘a des termes éloignes, des effets qu’il n’a pas, et l’acheteur se soumet ‘a les payer sans en avoir les fonds. ” p.31 “Pourra-t-il, si l’opération dont on le charge est en opposition avec celle qu’il a faite pour son compte, la suivre avec le zèle et la fidélité que la loi lui prescrit ? Supposons, par exemple, qu’un Agent s’est permis de vendre pour son compte une grande quantité d’effets. Depuis ces ventes, des évènements politiques ont amené une bonification de 10%. Son espérance se soutient, il espère qu’une baisse arrivera. Au milieu de sa perplexité, il est appelé par le chef d’une maison respectable, qui lui donne ordre d’acheter, au comptant, une masse des mêmes effets. S’il accepte de faire cet achat, peut-on croire qu’il le fasse avec toute régularité possible, lorsque l’on réfléchit qu’il a la certitude qu’il se nuit à lui-même, en occasionnant la rareté des effets dont il s’est mis a découvert, et faisant par la hausser leur prix ? Ne peut-on pas soupçonner qu’au lieu d’acheter loyalement pour son commettant, de manière à faire une hausse dans les effets, il commencera par acheter pour son propre compte, et ne lui fournira des bordereaux que des achats faits ensuite, et qui seront à un prix plus élevé qu’il n’eut été, si son intérêt particulier ne l’avait engagé à se couvrir lui-même, avant de remplir l’ordre reçu

⁶⁸Archives départementales des Bouches-du-Rhône, 27 F 23. “ .. qu’ils ne reçoivent qu’avec des endossement en blanc en manière que ceux de qui ils reçoivent ces lettres ignorent a qui ils sont cédées ”.

⁶⁹Archives départementales des Bouches-du-Rhône, 27 F 23. “ ces 8 courtiers de change sont unis et se communiquent ”

Table 1: Average Tenure in Office for Marseille and Paris

Period	Mean (Standard Deviation)	N
Exit before 1692	10.14 (9.81)	199
Exit before 1709	10.32 (9.41)	290
Exit after 1709 but before 1773	13.30 (10.90)	197

Table 2: Sellers' Financial Condition at the time of Office Sale

	Before 1709 (%)	After 1709 (%)
Rich or Wealthy	24.44	20.29
Poor	31.11	
Mediocre	24.44	21.74
Miserable	17.78	57.97
Number of Office Sold	45	69

Figure 1: Maison Roux' Account with Broker Ricaud (January 1745)

Date	Description	Amount
1745		
Janv. 5.	1 Lettre sur Toulouse au pair	491
8.	1 Lettre sur Grand p ^o 540. a 100. 33 cap ^o C	1708
9.	1 au 1000	5025
20.	1 Lettre sur Paris au pair	2100
28. a Paris	2 Lettres sur Bordeaux a Paris & retour	3000
29.	1 Lettre sur Paris au pair	1477
	1 Lettre sur Cadix a Paris 108. a 15. 1. la. C	2076
fev. 6.	1 Lettre sur Bordeaux au pair	10126
11.	1 au	4908
	1 Lettre sur Amsterdam au pair valeur de Paris a Paris & retour	4091
17. a Paris	1 Lettre sur Bordeaux au pair	2000
18. a Paris	2 Lettre sur Paris au pair	6000
	3 au	8503
Mar. 6.	1 Lettre sur Paris au pair	1284
	1 au	6928

Notes: The account's excerpt records information on bills sold and bought through a broker.

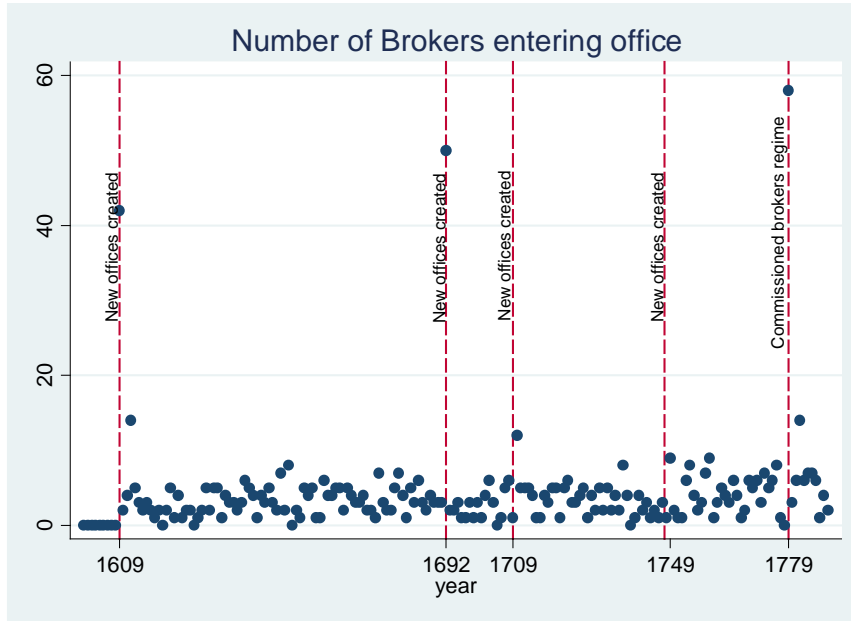
Sources: Archives de la Chambre de Commerce et Industrie Marseille Provence. LIX-59 : Fonds Roux Frères, Comptabilité, Comptes de censezies avec les courtiers 1745-1789.

Figure 2: Court Hearings containing Date and Identities of Plaintiffs and Defendants

Plaintiff	Date	Defendant	Count
<u>audience du 4 janvier</u>			
Rebuffat	audience du 4 janvier	son 5 ^e fils	1
Roche		Robert	
Reymoneq		Roustan	
Rimbaud		Nevest	
<u>audience du 8 janvier</u>			
Nichetini & Siren	audience du 8 janvier	Lamesbourg, Senex & Pister	2
Roux		Bonnaire	
Rochebrun		Guilhermy	
Rochebrun		Guilhermy	
<u>audience du 15 janvier</u>			
Roux	audience du 15 janvier	Senex & Pister	4
Robertjol		gautier a la chambre	
<u>audience du 18 janvier</u>			
Rochebrun	audience du 18 janvier	Lavabre	5
Roubis		Chaperon	
Rebuffat		Proffant	
Rebuffat		Roux	
Reynaud		Roubaud	
<u>audience du 22 janvier</u>			
Blouffat	audience du 22 janvier	gautier a la chambre	6
Rimbaud		gautier a la chambre	
Roman		Alchard	
Rangoni		Jouve	
<u>audience du 25 janvier</u>			
Rivaller	audience du 25 janvier	Daudouard	7
Reymonet		Roustan	
Nyhelini		Senex & Pister	
Pouvier		Borrelly	
<u>audience du 29 janvier</u>			
Nicaud	audience du 29 janvier	Darboisne & mouster	8
<u>audience du 1^{er} février</u>			
Rebuffat	audience du 1 ^{er} février	Jullien	28
Robillard		Clément	
<u>audience du 8 février</u>			
Raimbaud	audience du 8 février	Vassak	29
Nicaud		Cordail	
Raponty		Reynier & Guillon	
Roubis		Reynier	
Rimbaud		Peraud	
Rimbaud		Gilly a la chambre	
<u>audience du 12 février</u>			
Reynaud	audience du 12 février	Roubaud	12
Roux		Cammarata	
Raymond		Carache	
Rouffet		Tillot	
<u>audience du 15 février</u>			
Reymonet	audience du 15 février	Roustan	13
Réy		Reynaud	
Roche		Adenet	

Sources: Archives départementales des Bouches-du-Rhône.

Figure 3: Number of Brokers entering Office by Year



Notes: Aggregate figures for brokers in merchandise, insurance and exchange.

Sources: *Archives de la Chambre de Commerce et Industrie Marseille Provence*. *Archives départementales des Bouches-du-Rhône*

Figure 4: Number and Value (livres) of Loans taken by the Brokers' Corporation

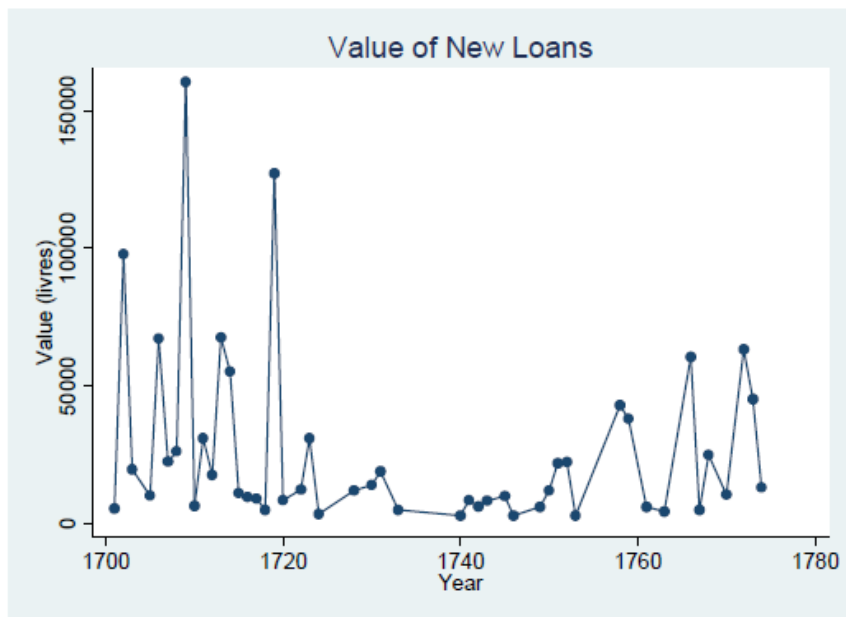
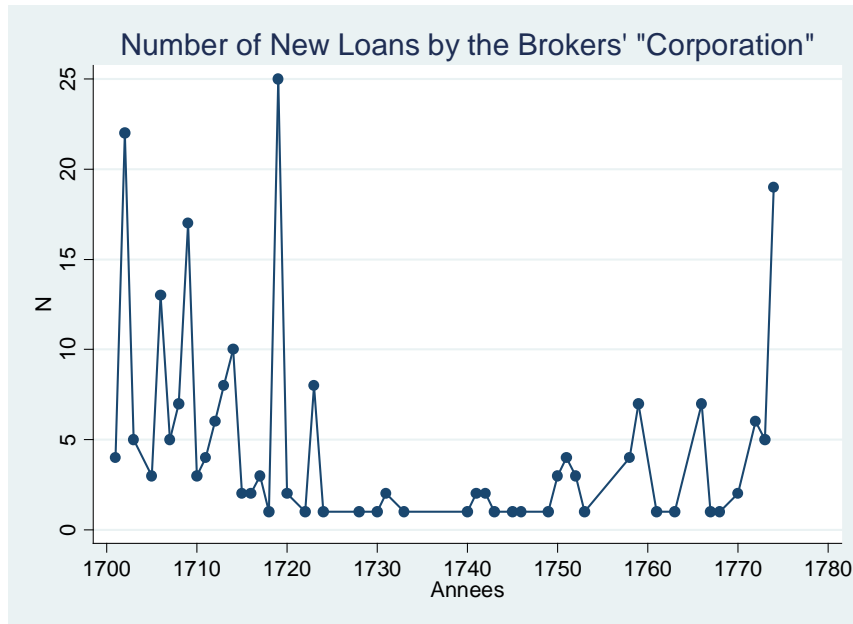


Figure 5: Records of Sellers' Financial Conditions at the Time of Transfer

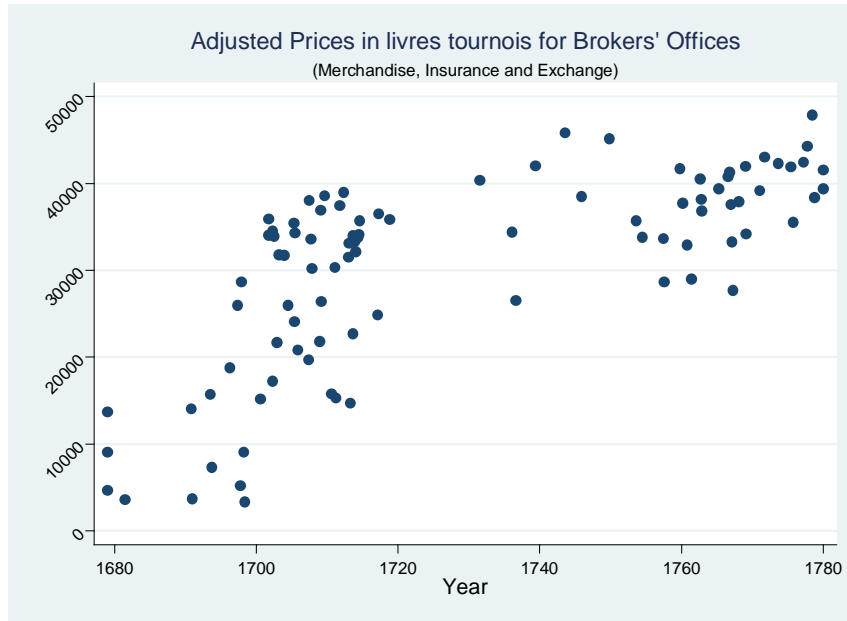
1703.

51 Etat des Courtiers de Marseille, de leurs facultés et acquisition de leurs Offices

Noms des Courtiers	Noms de Ceux de qui ils ont acquis les offices et en quel temps = Courtiers de Change =	Sommes qu'ils doivent sur le prix de leurs offices
Safant	a 10 enfants et paraît avoir du bien a succédé à son père en 1692.	
Quibec	Médecin et banquier	
Dudier	a succédé à Hottel en 1702. H. Hottel avoit fait banqueroute et l'office fut acheté avec l'achien	17600 L.
Cravaille	a succédé à Campou en 1703. P. Campou n'avoit pas bien fait ses affaires.	7000.
Crabouze	Il ne fait que commencer et banquier	
Blay	a succédé à Chiusse en 1706. Chiusse est pauvre et de l'intrigue il pourra succéder.	9000.

Sources: Archives de la Chambre de Commerce et Industrie Marseille Provence.
Fonds Roux Frères. Archives départementales des Bouches-du-Rhône

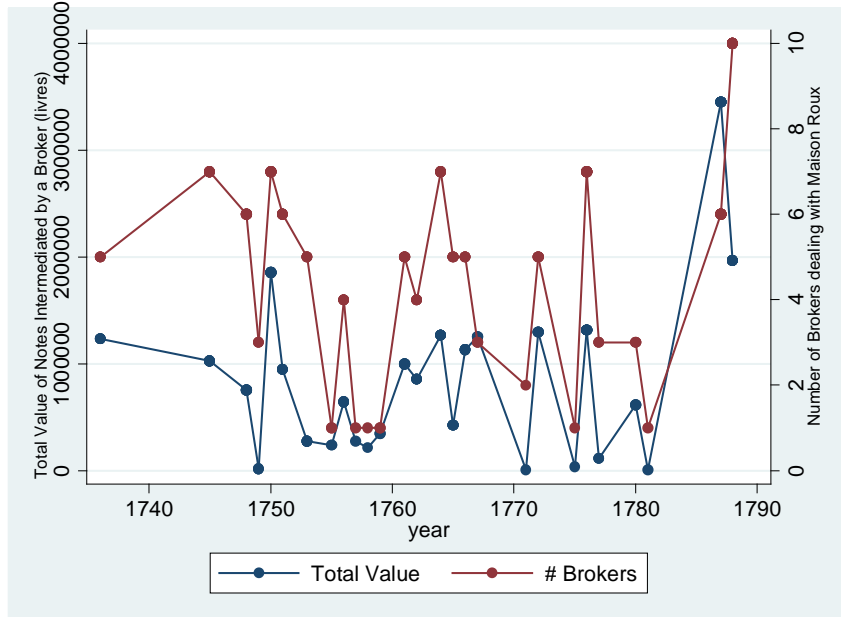
Figure 6: Prices for Brokers' Offices



Notes: This result takes into consideration the historical track of a sample of 29 offices. Data on the remaining 30 offices is work in progress.

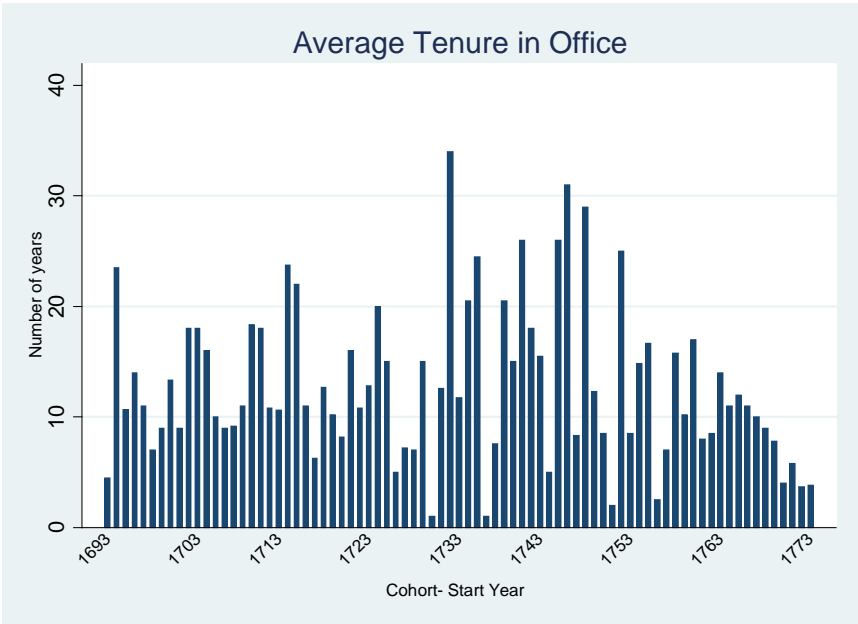
Sources: Archives de la Chambre de Commerce et Industrie Marseille Provence. Fonds Roux Frères. Archives départementales des Bouches-du-Rhône

Figure 7: Total Number of Brokers and Value of their Dealings with Maison Roux



Sources: Archives de la Chambre de Commerce et Industrie Marseille Provence.
Fonds Roux Frères. Archives départementales des Bouches-du-Rhône

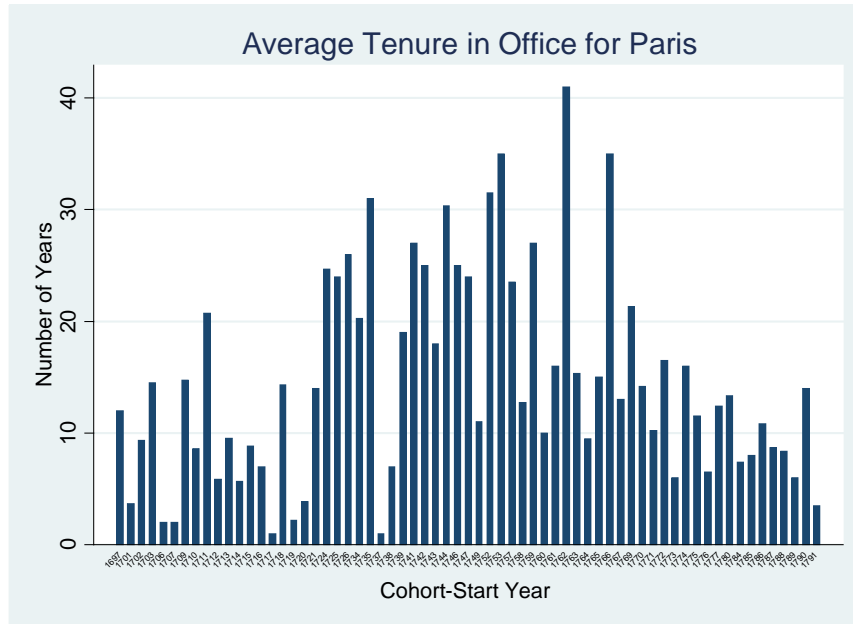
Figure 8: Brokers' Average Tenure (number of years) in Office for Marseille by Cohort (year broker started in office)



Notes: This result takes into consideration the historical track of a sample of 29 offices. Data on the remaining 30 offices is work in progress.

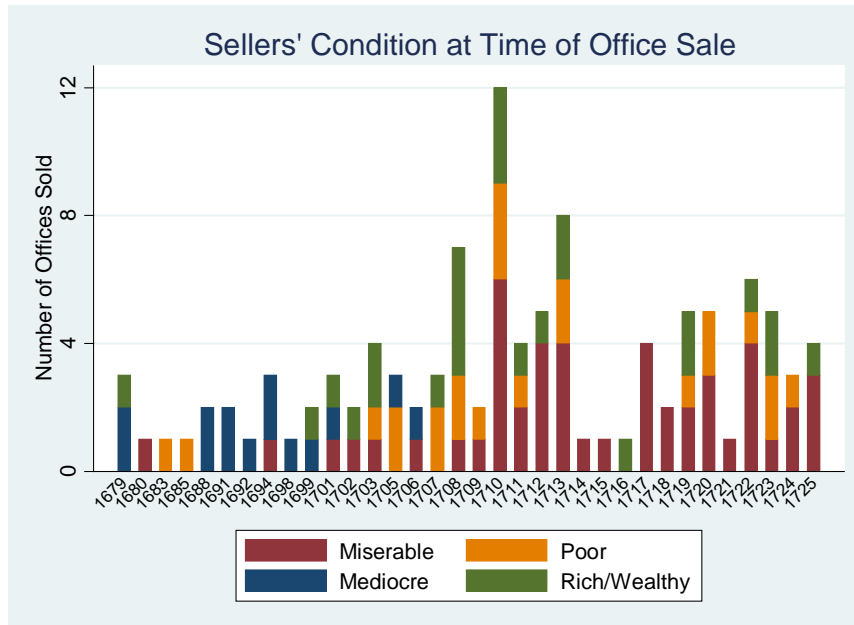
Sources: Archives de la Chambre de Commerce et Industrie Marseille Provence. Fonds Roux Frères. Archives départementales des Bouches-du-Rhône

Figure 9: Brokers' Average Tenure (number of years) in Office for Paris (1697-1791)



Sources: Archives Nationales, Paris

Figure 10: Sellers' Financial Condition at Time of Office Sale



Sources: Fonds Roux Frères. Archives départementales des Bouches-du-Rhône