

**Fighting the financial crisis in Greece:
The Société privilégiée pour favoriser la production et le commerce du Raisin de Corinthe
(1905) as international bank cooperation¹**

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Foreign capital and national economies

Reading the newspapers these days, one can learn that after agonising and exhausting discussions the European governors finally decided to help Greece by guaranteeing the necessary financial aids to repay their loans. Additionally, the European governments are willing to give one billion Euros for direct investments to the struggling Greek economy. Furthermore, Brussels decided to invest or to create incentives for investments in the economies of the Arab countries to help them build up stabile democratic states. Foreign capital is considered a very important if not indispensable instrument for helping and developing national economies and democratic societies in a short-term perspective.

Against this background a historian not familiar with Greek social and economic historiography gets a aggravating surprise in reading the older Greek works on Greece's foreign debt from the 19th century: For decades Greek historians (for example Andreadis) strongly considered the commitment of international banks and financiers in Greece as the essential reason why the Greek economy did not flourish and stayed backward. Modern Greek economic historiography relativizes this view, but still argues that "foreign finance and control perpetuated and enhanced the country's underdevelopment", even if it was not its cause.² The international bankers did not appear as money-grubbing locusts grasping every opportunity to exploit the exsanguinous small country any more. However, the hidden agenda of those investments are not challenged. This should be reconsidered: Banking historiography recently pointed out that in a cultural historical perspective bankers cannot be seen only as businessmen but also as members of networks and personalities with political beliefs and idealistic ideas. From this point of view it is a fascinating attempt to change perspective and to ask, why foreign bankers were willing to invest their money in the obviously risky Greek market between 1821 and 1909, which is tried in my habilitation project "Entering new ground. European banks and Greece in the 19th century".

There are some obvious examples: One can think about Jean-Gabriel Eynard, a Swiss banker starting his 40 years lasting support for Greece in 1825 due to its burning wish to prove the possibility to practice liberal and enlightened politics to the welfare of the state's citizens. Also the family d'Eichthal is an excellent example: while the Paris banker Adolphe d'Eichthal did

¹ There are no footnotes in this preliminary version of the paper. As archive material Banque de l'Union Parisienne's Archives and Hambros' Archives in London Metropolitan Archives were used.

² Minoglou, 1997, S. 264.

investments in Greece, his brother Gustave went to Athens as a fanatic Saint-Simonist and later founded a society for the support of ancient Greek language. One can easily prove that in these cases there were strong relationships between philosophical idealism or philhellenism and practical bank business.

Today, however, I want to present an example in which the bankers involved were not obvious followers of a political idea: the foundation of the *Société privilégiée pour favoriser la production et le commerce du Raisin de Corinthe* in 1905 by Banque d'Athènes (BA), Hambros, Emil Erlanger and Banque de l'Union Parisienne (BUP).

Currants and Greek economy in the 19th century

The importance of currants for the Greek economy in the 19th century has been intensively researched by Greek scholars. Therefore, I would merely like to repeat some known facts: During the 19th century currants were one of the most important exports of Greece. Statistics show that the production was actually expanded in the 1870th and 1880th. The expansion of exports was possible due to the rising demand for currants in Europe since other countries' vineyards were affected by mildew. However, when France, which was most severely affected, established tariffs on imported raisins in order to protect its own recovered production of grapes in 1891, the price for raisins fell to 1/6 of its former international level. Greece was not able to find sufficient replacement for the shrunken demand for its extended production. For the Greek treasury, this meant a disastrous decline of revenues which made the further service of the country's foreign debt impossible. Between 1878 and 1893 Greece had issued 640 million Francs, an extraordinary high sum for the hardly industrialised country. A huge part of this money had been invested not in the development of the national economy, but in the armed conflict between Greece and the Ottoman Empire. In December 1893 the Greek minister of finance, Charilaos Trikoupis, announced that the state of Greece was insolvent.

In this situation, it was obvious that the production and commercialization of Greek raisins had to be preserved in order to prevent it from possible crisis. A way had to be found to deal with the surplus of about 60 million Venetian pounds per annum to consolidate the international prices for currants. In 1895 the chamber issued a first law which dictated the storage of 15% of the crop to reduce the supply and lift the prices. After Greece was put under international finance control in 1898 a so called Currant Bank (Stafidiki Bank) was founded in 1899 to centralize the storage and to stabilize the market prices. But the very rich crop of 1902 led to the collapse of the bank since its capital was not sufficient to buy the surplus. In 1903 a currant monopoly convention was issued with the participation of British capitalists, but the even better crop of 1903 brought this project again to a halt and forced the government to intervene by

supporting the bank with additional funds. In this situation, BA's executive officer Joannina Pezmazoglu presented the plan for an international "Société privilégiée pour favoriser la production et le commerce du Raisin de Corinthe" which tried to find a solution in cooperation with the London and Paris based bank houses Hambros and Erlanger and BUP. To scrutinize the motives of the participation of the foreign bankers in the project, I will first introduce the principal actors and their personal relationships before representing the idea of the project and the way it was discussed in the business correspondence.

The actors and their networks

The man who pulled the strings in this project was Joannina Pezmazoglu, executive officer of the BA. Born in Alexandria, he started his career at Crédit Lyonnais d'Alexandrie, a position which brought him excellent connections to the French capital market. Alongside he acquired a fortune by speculating at the stock market and finally founded his own private bank. In 1896 he moved to Athens where he affiliated his bank with the BA and became its director. This Athens based bank had been established in 1893, shortly after the Greek financial crisis, as Société Anonyme by a group of Greek bankers. Its key objective was to grant commercial and industrial loans to Greek entrepreneurs in Greece and abroad, especially in Turkey and Egypt. So Pezmazoglu, a diaspora banker of the second generation himself, was the perfect man to care for the foreign customers of the bank. Pezmazoglou is said to have been a very charming and endearing character with high political ambitions and rhetorical talent. Even before he moved to Greece he started publishing his considerations about the possibilities to reform the Greek financial system. In 1898, after only two years in Athens, he published a memoir about the Greek Curren bank. This way, he managed to introduce himself in Athens as a patriot returning to his fatherland to contribute to its economic development. In 1905, an article in the *Reforme Smyrne* glorified his contribution to the welfare of the country: « C'est lui qui a inculqué à la Grèce l'esprit nouveau; l'esprit de l'économie politique, l'esprit du travail, l'esprit de l'initiative créatrice. » In 1905, Pezmazoglu introduced himself as Deputy of Calamata, so it can be assumed he was active in politics. In another article he was even introduced as a possible future candidate for the position of the Greek Minister of Finance. The Greek press seemed to have shared the very positive picture drawn by the *Reforme Smyrne*. One can contest that Pezmazoglu at this point of his career had an active interest in communicating the new Société privilégiée as an organisation extraordinary useful to the welfare of Greece.

Hubert Bonin considers the BA, Pezmazoglu's employer, as a key institution to put Greece on the agenda of French financial interests in the Mediterranean. Indeed Joannina Pezmazoglu was the person who first contacted the Paris based BUP to propose closer relationships between the

two banks. The BUP was founded in 1904 to profit from the possibilities of internalisation of banking. Several important houses of the Haute Banque of Paris like Michel Heine, Alphonse Mallet and Paul Mirabaud were amongst the founders of this new joint stock bank. Lucien Villars, formerly responsible for international relations at Paribas, was appointed the first director of the house. It is of course not a surprise that the new founded BUP, looking for lucrative investment possibilities and due to its co-founder Rodolphe Hottinguer, who was very interested in the Mediterranean, was not averse to the proposals of the BA. The fact that Joannina Pezmazoglu's name was already known in French financial circles may have made confidence even easier. So the BUP acquired a share within BA in April 1904 at the occasion of the bank's increase of capital from 10 to 20 millions of Drachmas with the participation of 100.000 Francs. Simultaneously it organised the introduction of the BA shares at the Paris stock market and delegated a representative in its advisory board. Of course, this cooperation helped to strengthen the BA's reputation on the French financial market. But, and this is important to note, the first steps of the cooperation did not cause a decrease of risk awareness of the French bankers or made them less critical to proposals of the Greek partners. For example, Villars did not accept a proposal of Pezmazoglu for a new mine company in December 1904. In the years 1904/05 the two banks stood at the beginning of their cooperation, and one may not draw any conclusions out of the fact that it continued till 1930 – in the moment of the founding of the Société privilégiée, the cooperation was still very inexperienced.

But before we follow the question what made the Société privilégiée more attractive than other proposals of Joannina Pezmazoglu, we have to look at the British partners in the business.

The house of Hambros started in the 18th century as traders in Hamburg. Carl Joachim Hambro moved to Copenhagen in Denmark, as protégé of Rothschild. At about 1850 C. J. Hambro & Son became a member of the first league of British bankers, then situated in London. Hambro was very interested in Mediterranean business, issuing loans for Sardinia and Cavour's struggle for the unification of Italy, but was also active in the USA and Scandinavia. Since 1864, Hambro was the most important source of finance of Greece in Britain, due to its good relationship to the Danish royal dynasty and Prince Vilhem: after the fall of the Bavarian king Otto I. a Greek delegation came to London to look for a new king for their country. It was Carl Joachim who introduced the Greeks to the Danish prince Vilhelm, who in 1864 became king of Greece. Carl Joachim Hambro advanced Vilhelm £ 10.000 for his enthronement in Athens. He then enjoyed a privileged position in Greece as the king's personal banker. When Greece was opened again to the international money market in 1879, Hambros energetically entered the new market and participated in ten of thirteen loans issued by the Greek state between 1879 and 1893. Even if its engagement in Greece reached its peak some years later in 1920, Hambro was

doubtless the most important financier of Greece in Great Britain at the beginning of the 20th century. So for the C. J. Hambro & Son the relevance of a 40-years-tradition of financing Greek projects cannot be underestimated. Seen from the Greek perspective, there were few alternatives for Pezmazoglu on the London market to Hambro. But in the case of the *Société privilégiée* Hambro was not the principal agent on the British market: in the correspondence of BUP his name is not mentioned very often. Instead of Hambro, his long standing partner Emil Erlanger was the one corresponding regularly with BUP and BA. The Erlanger family, originally situated in Heddernheim and later in Frankfurt, had also close connections to Greece: Émile Erlanger was consul general of Greece in Frankfurt before he installed his bank in Paris in 1859. There he was consul general of Greece for several decades and organized the contributions of Greece to the Universal Exhibitions of 1867 and 1878. Maybe anti-Semitism prejudices contribute to his reputation as a very ruthless and grabby banker, but on the other hand Erlanger was well known for his widespread philanthropy. After the Prussian-French War of 1870 he moved to London. Erlanger was largely engaged in the Mediterranean, especially in Egypt and Tunisia, but also issued a railway loan for Greece in 1902. At the moment of the installation of the *Société privilégiée* the two banks Hambro and Erlanger cooperated in many fields and Everard Hambro, the youngest son and successor of his father, used to address Erlanger in his letters very familiar as « mon cher Emile ». The possibility to continue this well introduced and faithful cooperation for an investment in Greece, where both British banks were interested in expanding their investments, might have been very attractive for both of them.

Société privilégiée pour favoriser la production et le commerce du Raisin de Corinthe

What made the idea of the currant trade company so attractive for all the involved actors? To answer this question, one has to look at the purposes and conditions of the newly founded company. In his memoir for Emil Erlanger Pezmazoglu pointed out that the company would contribute to the welfare of all actors in currant trade: “The overproduction of currants and the consequent heavy loss to the currant growers preoccupies for many years now not only the Greek Government and people, but also those who have an interest in the article, and, in a general way, all people who desire the welfare of Greece.” He explained the problems of the current situation: The law of June 1904 dictated that the Currant Bank was obliged to buy the revenue of the not exported crop at a fixed and very low price. On the exported currants, a payment in kind of 35% or 40% was required, but the so collected currants, used only for industrial purposes, earned little income to the Treasury. On the other hand, the currant bank was unable to fulfil its obligation to buy the revenue, because its capital was locked up in loans

for the currant growers, who were not able to pay the money back because of the very bad price they got for their crop.

Pezmazoglu wanted to ameliorate this insupportable situation. His purpose was “the giving of a greater stability to the currant trade.” The crash of the price was to be avoided and the lost confidence in the merchandise had to be restored. The author emphasised the beneficial effect of his project for the farmers: “Il conjurera aussi les dangers qui menacent aujourd’hui la Banque “Stafidiki” et une grande partie des intérêts de la nombreuse population viticole.” The plan was to found a Greek company with the capital of 20.000.000 Drachmas gold (£800.000 or 20.000.000 Francs), divided into 200.000 shares of 100 Drachmas each. The dividend per year was guaranteed with 6%. Beside the regular shares one wanted to introduce 800.000 founders’ shares without any nominal value. A proportion of 5 mio shares were reserved for the state-owned bank “Stafidiki”, which was allowed to pay the full amount sum within four years.

Prior to the 1st July of every year, the *Société privilégiée* had to determine a price for the surplus of crop, which was classified in categories. The company was bound to buy all quantities of currants which have not been sold abroad by the growers to higher prices until this date. It was not allowed to export these revenue currants in their natural state for not to ruin market prices, but obliged to turn them into alcohol, wines or other products within the country. The company was allowed to sell alcohol in Greece, and it was not allowed for anybody in the entire country to win alcohol out of other materials than raisins. The company had to pay taxes for all exported currants to the Treasury, so the Treasury could count on a fixed amount in time. For this, it received a tax of 19 Drachmas per 1.000 Venetian pounds on the exports, which was nearly double of the sum it had to pay to the Treasury. It had to provide warehouses to store all harvest to everybody, but for that got an additional tax of 7 Drachmas per 1.000 Venetian pounds on the total amount of currants produced. Pezmazoglu counted on an annual profit of about 4.000.000 Drachmas, which could increase if consumption grew or the crop diminished. On the other hand, he saw dangers for the company if more than 330 millions Venetian pounds of currants, the number with which he counted, were produced. So the creation of new vineyards was prohibited by law for 15 years, the duration of the concession. Additionally the company was encouraged to advertise currants in new markets to enlarge the consumption of this natural monopoly of Greece abroad.

The implementation of the company

The first prenegotiations for the foundation of the business were obviously carried out by brokers. On the one hand a commission of 500£ for a Mr. de Zoete is mentioned, on the other hand, Sauerbach Thalmann Cie charged commission fees for intermediation of 1,5 Francs per

share before Pezmazoglu sent the first draft of his project to BUP. It is not clear why these intermediates were necessary although the BA und BUP were already in contact. In his drafts, Pezmazoglu emphasised his long preparative deliberations with the members of the Greek Cabinet. Further on, Pezmazoglu managed to win Edmond Théry, the director of de L'économiste européen and author of the book "La Grèce actuelle au point de vue économique et financier" to write a scientific memorandum about the question of currant trade, which he gave to his desired partners. The memorandum reinforced strongly his plans.

So the Greek banker was easy going to win the French group for his plans. But how did he come in contact with the British group? In a letter to Villars he explained, that this contact was organized due to Georgiades, an extraordinary agent of Erlanger in Greece. Pezmazoglu painted a quite unpleasant picture of Georgiades and pointed to his very bad reputation: Georgiades was banished from the Ottoman Empire because of his attempts to blackmail the Ottoman Government, and after that he had to leave Paris because of conflicts with Comptoir d'Escompte and the Greek diaspora banker Vlasto. (Of course it is the question why Erlanger should have cooperated with such a bad repudiated banker as agent in Greece, if we want to believe Pezmazoglu his story about Georgiades). Georgiades had tried for some time to install a company for the currant trade himself, and when he failed with his own project, he proposed Pezmazoglu to win Erlanger as partner in the BA's plans. The business came about, and Georgiades claimed the position of an administrator in the administrative board of the *Société privilégiée*, which Pezmazoglu refused to give him. The conflict about this question continued for several months. Important for our question is the fact that Erlanger got involved into the *Société privilégiée* due to a broker, but in this case a Greek one.

Obviously Pezmazoglu waited for contributing his elaborated project until the contacts to the foreign capitalists were prepared through these brokers. The reaction of the international partners to Pezmazoglus proposal was positive – and very swift. A letter of Hambros to Emil Erlanger from Paris on 23.5.1905 informed the latter that the hearing with BUP had already successfully taken place. Even if Hambro wrote to his partner in London that he found the claims of the French quite demanding, "je suis convaincu qu'on n'arrivera pas à les réduire." Without the French banks it would not be possible to realise the company, and they knew this. In accordance to ordinary banking practice, they also got a commission: BUP got half of the sum of 400.000 Francs, Erlanger and BA each ¼. The bankers united on making a public emission only on the Paris market and to try everything to make the business appear not being too speculative. But, and this is the interesting fact, there was no discussion at all if the project in general should be carried out or not. The Greek banker's argumentation about public welfare

and stabilisation of the Greek state in general was accepted without any antagonism by its international partners.

In the following months, Pezmazoglu tried to win the Greek government and the Greek Chamber for its project and had to adapt his activities with BUP, which of course thumped its own financial interest. For example BUP tried to push back the Currant Bank and its participation on the company's profit. Pezmazoglu replied that the participation of the state-owned Greek Currant Bank was inevitable to persuade the majority of deputies and to make the project more popular. He also managed to persuade the Greek National Bank to a participation of 2.500.000 Drachmas. This participation of the prestigious National Bank was very important for the reputation of the project. Again and again Pezmazoglu asked his partner BUP to give immediately its acceptance to small modifications of the convention, because it was essential to pass the law within the running session of the Chamber. But the BUP insisted every time on detailed information and facts before giving its acceptance. As reason for this carefulness the foreign banks mentioned their « responsabilité morale » vis-à-vis their partners and clients. The discussions in the Greek Chamber must have been exciting, but after a session of 48 hours, Pezmazoglu was able to inform the BUP that the second lecture of the law passed. After “debats orageux” the law was finally accepted on 29th July 1905 at five a clock in the morning.

In August the capital of the new Company was collected from the participants. The BA was the strongest stockholder with 27.000 shares (each 250 Francs), followed by the English group with 17.500. La Marseillaise took 5.000, BUP only 3.000. The houses of the Paris Haute Banque like Heine & Co (800), Mirabaud (400), Dreyfus (100), Vlasto (200) and de Neuflyze (1.200) – to mention only a few examples - contributed as well. Sauerbach Thalmann & Co, who had been brokers for the business, bought 1000 shares. It is very interesting to see that even the managers of the BUP bought shares of the *Société privilégiée* on their private accounts as well: Villars 250, Wehrung 100, Barbé 100 and Lustgarten 50. Edmond Thery, the author of the memorandum mentioned above, bought 200 shares. The actors in this business must really have counted on the success of the company.

The *Société privilegiee* was able to start its business in August, so that the crop of 1905 could be merchandized. Conflicts about the special treatment of the state-owned Currant Bank continued, for example in the question if this bank had to contribute to the commissions for the brokers or not (which it finally had to). There were discussions about the composition of the Board of Administration of the *Société privilégiée*. The BUP hesitated whom to appoint as member of the Board of Administration of the new company and then decided finally for Zaphirios Matsas, the later successor of Pezmazoglu at BA. The introduction of the stock at the Athens and Paris stock exchange in November 1905 did not achieve the desired success. The BA bewailed the baisse of

the shares, which in Pezmazoglu's opinion resulted from intentionally launched rumours. The BUP advised the Greek partner not to buy any additional shares but left the support of the shares to the French partners. The syndicate for the support of the emission was extended until December 1906 to avoid a further decrease of the share price. In 1906, Pezmazoglu additionally enforced the foundation of a *Société Vinicole* for the further converting of the currants into alcohol and other products. Even if its shares did not *hausse* at the stock exchange, the *Société privilégiée* organised the efficient execution of the currant trade and reached its aim to stabilise the international prices for raisins. The shareholders got their dividend of 6% each year, until the outbreak of the Balkan Wars worsened the situation. This positive development was not even endangered when Joannina Pezmazoglu died of a sudden sepsis in December 1906. Already during his illness one could follow excited discussions between the managers of BUP about his succession: "Il faut craindre les intrigues de tous cotes relatives à successeur Pezmazoglu." The *Société privilégiée* survived the death of his founder.

Conclusion

Older Greek economic historiography tended to argue that the foreign capital exploited the country and was the main reason to forestall its economic development. In the case of the *Société privilégiée pour favoriser la production et le commerce du Raisin de Corinthe* one finds a contrary situation. The initiator of the project, BA's director Joannina Pezmazoglu, saw his proposal to stabilize the currant trade with the help of foreign capital as a contribution to the country's welfare. There is no reason to mistrust his argumentation, all the more he had strong ambitions to make a career in politics and had to focus on projects which enhanced his popularity. He used Greek and foreign brokers to find capitalists abroad for his project. That means that the foreigners counted on personal networks and confidence to well known persons and partners to come to their investment decisions. On the basis of this personal relationships, the foreign capitalists participated in the project very quickly and without any hesitation about its success. So it was able to be realized within the breathtaking speed of only three months from the first drafts to the law passing the Greek Parliament. One can reason that the British and French Bankers were persuaded not least due to Pezmazoglu's idealistic argumentation, even if they did not forget their own pecuniary interests. The stabilisation of the prices for Greece's most important exportation good was a worthwhile project for them, because it would contribute to the economic development of the country. If they favoured this aim only because of selfish interests or if they were really interested in the amelioration of the situation for the inhabitants of Greece can not be judged on the basis of the available sources. At least these two goals were able to be combined in this special case.

Of course one can not extend this argumentation to all investments of the BUP or Hambros in Greece. Other projects open other perspectives, which are not that friendly to foreign capitalists. So my paper understands itself only as an indication that the role of bankers cannot be reduced to just being unscrupulous money-makers without more detailed research and in-depth case studies. There were cases where international financiers were willing and felt responsible to help a country in an unlucky situation in combining their private economic interest with the country's benefit. Perhaps this result can produce hope for the Greek economy of today.