

The ingredients of a network: family, faith, correspondence

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The network of the Protestant Bank rested on several ingredients, whose combination explains its effectiveness.

The first is family. The banking houses of the eighteenth century were almost all family businesses. The partners were fathers, sons, brothers, cousins and sons-in-law. The capital came largely from the extended family. Marriages between banking families created lasting alliances, which strengthened trust and facilitated cooperation. Young men served their apprenticeship in the house of a relative or an ally, often in another city, before founding their own house or joining their father's.

The second is faith. Membership of the Protestant community created a bond of solidarity and trust between people who did not know one another directly. In a country where Protestantism was prohibited, this membership also implied a degree of discretion and prudence. The Protestant bankers of Paris attended the chapels of the embassies of the Protestant powers, where Reformed worship was tolerated, and maintained their community ties there.¹

The third is correspondence. The bankers exchanged letters continuously with their correspondents. These letters conveyed orders, information on prices and markets, political news and assessments of the solvency of debtors. The quality of information constituted a decisive competitive advantage. A well-informed banker could anticipate movements in exchange rates, avoid doubtful debtors and seize opportunities.

The fourth is reputation. In a world where contracts were difficult to enforce at a distance, a banker's reputation determined his access to credit and to clients. A bankruptcy or a default ruined that reputation for a long time, and sometimes for a whole family. Family and community ties

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reinforced the disciplinary effect of reputation: a member of the network who betrayed his commitments exposed himself to exclusion.

The fifth, finally, is geographical dispersion. The families of the Protestant Bank had members established in several countries. This dispersion, inherited from forced migrations, proved a considerable asset for international finance: it gave access to several markets, allowed risks to be diversified and offered refuges in the event of persecution or crisis.

Ingredient	Economic effect
Family	contribution of capital, lasting alliances, training of successors
Shared faith	trust between distant persons, solidarity in times of crisis
Correspondence	rapid circulation of information on prices, markets and debtors
Reputation	discipline of conduct, access to credit and to clients
Geographical dispersion	access to several financial centres, diversification, refuge

These ingredients are found in other merchant networks in history, whether founded on a religious, ethnic or regional identity. Economists see in them a response to transaction costs and to the risks of opportunism in environments where legal institutions are weak or inaccessible. Their effectiveness has a reverse side: such networks can become closed, excluding outsiders, and they can lose their advantage when legal institutions grow stronger and make personal trust less necessary.

1 Notes

1. Oratoire du Louvre, “De la Chapelle de Hollande à l’Oratoire du Louvre” (oratoiredulouvre.epudf.org): the chapel of the Dutch embassy, at the corner of the rue des Saints-Pères and the present boulevard Saint-Germain, became the principal centre of Reformed worship in Paris; “Around 1720, services were held two or three times each Sunday, with congregations of 600 to 700 people”; Lutheran worship at the Swedish embassy, rue Jacob, and at the embassies of Denmark and Brandenburg; in 1802, Pastor Marron described the Protestants of Paris as belonging to “wholesale trade, banking, watchmaking, jewellery, the wine trade”; first service at the Oratoire at Easter 1811. ↩

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