

The partnerships of London and New York: a comparison

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The model of the bank organised as a partnership is not peculiar to Switzerland. In London, the great houses of the City were for a long time *partnerships*, whose partners were personally answerable for their commitments. In New York, several major investment banks remained *partnerships* until the end of the twentieth century, before going public.¹

Several observers have argued that the abandonment of the *partnership* model contributed to greater risk-taking in the large investment banks, since their executives no longer risked their own fortune and could draw on the capital of dispersed shareholders.² This thesis remains contested, as many other factors played a part in the crises. It nevertheless accords with the analysis of incentives presented above.

The collapse of Barings Bank in 1995, brought about by the unauthorised dealings of a trader in Singapore, showed for its part that an old and prestigious house could disappear within a few weeks if its internal controls failed.³ For Geneva's private bankers, these foreign examples are a reminder that personal liability is not enough on its own: it must go hand in hand with rigorous organisation, effective internal controls and a culture that does not tolerate hidden risk-taking.

Financial centre	Traditional form	Evolution
Geneva	partnerships with unlimited liability	transformation of the great houses in 2014, partners' control retained
London	<i>partnerships</i> of the City houses	absorption into banking groups, spectacular failures
New York	<i>partnerships</i> of the investment banks	stock market flotations at the end of the twentieth century

1 Notes

1. Goldman Sachs, “In a Paradigm Shift, Goldman Sachs Decides to Go Public” (goldmansachs.com, History): partners’ vote in 1998; initial public offering on 4 May 1999 (69 million shares at USD 53, approximately USD 3.657 billion raised, 15% of the capital); “Goldman Sachs was the last big private investment bank in the United States”. ↩
2. Carola Frydman and Eric Hilt, “Partnerships, Corporations, and the Back Office Crisis of the 1960s” (egc.yale.edu, 2021; published version 2023): the New York Stock Exchange admitted corporations as members in 1953, then listed companies in 1970, and nearly half of the member firms were incorporated by 1975; advocates of a return to the partnership argue that unlimited personal liability curbs excessive risk-taking and that the illiquidity of a partner’s interest encourages long-term management; the authors’ examination of the back office crisis of the 1960s leads them to the opposite conclusion, partnerships having neither survived at a higher rate nor avoided the practices that compromised their stability, in particular reliance on subordinated loans from clients. ↩
3. Encyclopaedia Britannica, “Bankruptcy of Barings Bank (1995)”: collapse at the end of February 1995 after losses of approximately GBP 830 million accumulated by a single employee, Nick Leeson, sentenced to six and a half years’ imprisonment; Bilan, “Il y a 20 ans, Nick Leeson coulait la banque Barings” (Twenty years ago, Nick Leeson sank Barings Bank) (2015): losses of GBP 827 million hidden in account 88888 at SIMEX in Singapore; takeover of the assets by the ING group for one pound. ↩

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