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FIGHTING THE FINANCIAL CRISIS IN GREECE:
THE PRIVILEGED COMPANY TO PROTECT PRODUCTION AND TRADE
IN CURRENTS (1905) AS INTERNATIONAL BANK COOPERATION

Korinna Schönhärl

ABSTRACT: The global economic crisis in the 1890s affected the economy of Greece severely, and in 1893 the Greek State had to stop servicing its foreign debt. Part of the problem was the lack of diversity of Greek agricultural production, which was focused on raisins and currants (especially flavourful raisins, grown exclusively in the area around Corinth) for export. The collapse of market prices for this good seriously affected the Greek treasury and society in the growing regions. The Greek government responded by trying to withhold part of the harvest in fertile years to stabilise world market prices. Plans to organise a monopoly company for the currant trade necessitated high sums of capital from abroad. This article investigates the question of how foreign bankers in London (Hambro & Son, Emile Erlanger) and Paris (Banque de l'Union Parisienne) could be convinced to participate in the project. Which factors allowed foreign bankers to trust in the Greek national economy despite its poor reputation? What factors influenced their risk management? The focus is on the role of Greek brokers in persuading the foreigners to invest in Greece, especially the role played by Ioannis Pesmazoglou, the director of the young and innovative Bank of Athens.

Trust in the Banking Business in Times of Crisis

Banks are institutions which deal in promises to pay in the future – this is the main characteristic of their business.¹ Because the future cannot be forecast, this is of course a risky affair. The contingency of the decisions which have to be taken would block banking business completely if the banks did not have strategies to deal with risk. Risk awareness and risk management are thus the most important competences that banks need to establish and cultivate within their organisations. Certain criteria must be developed to enable trust in partners and projects in the absence of absolute security, which can in any case never be attained.² How can trust be generated in banking practices?

¹ Dirk Baecker, *Womit handeln Banken? Eine Untersuchung zur Risikoverarbeitung in der Wirtschaft*, Nachdruck, Suhrkamp-Taschenbuch Wissenschaft, 946, Frankfurt am Main: Suhrkamp, 2008, pp. 13 ff.

² *Ibid.*, pp. 140 ff.

The question of the generation of trust is perhaps one of the oldest in sociology. Classic authors such as Ferdinand Tönnies³ or Max Weber⁴ discuss it in their works. Georg Simmel's book about the trust basis of money is essential reading for the examination of business history.⁵ In modern times, Francis Fukuyama defined the level of trust in a society as the basis of its economic welfare, because trustful cooperation reduces transaction costs in all fields of business. He defined families, neighbourhoods, ethnic or religious communities or clubs as sources of these sociocultural resources.⁶ On the other hand, New Institutional Economics sees institutions as the source of the trust of market actors. Finally, economic historians such as Hartmut Berghoff are interested in the private economic methods of the generation of trust.⁷ Berghoff pointed to banking history as a field where the construction of trust should be researched in detail.

Economic crises are situations in which trust is deeply damaged. The subsequent recovery of trust is often an arduous business. These situations are very well suited to research into the mechanisms of the generation of trust. In the case of a state's bankruptcy, such as that of Greece in 1893, trust in the state as borrower was damaged, but so also was trust in the banks and the economy as a whole. One reason for the Greek moratorium on payments to foreign creditors was the sudden decline in the price of currants on the world market after 1892. While the credit of the Greek State gradually revived after an International Financial Commission was set up in 1898, the currant question remained virulent. This not only led to turbulence and riots in the Greek growing regions, but also to serious unrest in the international export markets. It was 1905 before a "Privileged Company to Protect Production and Trade in Currants" was established in Greece to organise the currant trade in a new way and to minimise the risks for the Greek treasury. This

³ Ferdinand Tönnies, *Gemeinschaft und Gesellschaft. Abhandlung des Communismus und des Socialismus als empirischer Culturformen*, Leipzig 1887.

⁴ Max Weber, *Grundriss der Sozialökonomik*, Part III: *Wirtschaft und Gesellschaft*, Tübingen 1922.

⁵ Georg Simmel, *Philosophie des Geldes*, Leipzig: Duncker & Humblot, 1900.

⁶ Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*, London: Penguin, 1996.

⁷ Hartmut Berghoff, "Vertrauen als ökonomische Schlüsselvariable. Zur Theorie des Vertrauens und der Geschichte seiner privatwirtschaftlichen Produktion", in Karl-Peter Ellerbrock (ed.), *Die Wirtschaftsgeschichte vor der Herausforderung durch die New Institutional Economics*, Untersuchungen zur Wirtschafts-, Sozial- und Technikgeschichte, 24, Münster: Ardey-Verl, 2004, pp. 58-71, 64-71.

company was founded as a joint-stock company with huge sums of capital from abroad. With respect to the generation of trust in the banking business, the question arises as to why French and British capitalists were willing to trust in this project despite the quite unstable economic situation of Greece. Research into this question may contribute towards consideration of the criteria on which trust in the banking business is founded.

Currants and Raisins in the Greek Economy in the Nineteenth Century

The importance of currants and raisins for the Greek economy in the nineteenth century has been intensively researched by Greek economic historians.⁸ During the nineteenth century currants and raisins were one of the most important of Greece's exports. Statistics show that production actually expanded in the 1870s and 1880s. In the period between 1887 and 1893 the value of these exported dried fruits exceeded that of all other export goods significantly.⁹ The expansion of exports was possible due to the rising demand for currants and raisins in Europe caused by other countries' vineyards being affected by mildew. However, when in 1891 France, which was most severely affected, established tariffs on imported currants and raisins in order to protect its own recovered grape production, the price for currants and raisins fell to a sixth of its former international level. The situation was further worsened through the worldwide economic Barings Bank crisis at the beginning of the 1890s. Greece was not able to sufficiently compensate for the decline in demand for its extended production.¹⁰ For the Greek treasury this

⁸ See Petros Pizanias, *Οικονομική ιστορία της ελληνικής σταφίδας, 1851-1912. Παραγωγή, διεθνής αγορά, διαμόρφωση τιμών, κρίση* [Economic history of the Greek raisin, 1851-1912: production, international market, price development, crisis], Athens 1988; Theano Tsioravidou, "La répercussion en Grèce à la fin du XIXe siècle de la crise du raisin sec", *Balkan Studies* 21 (1980), pp. 128-145. The raisin problem is also mentioned in every economic history of Greece; see, for example, Georgios Christopoulos, *Ιστορία του Ελληνικού Έθνους. Vol. XIV: Νεώτερος ελληνισμός από το 1881 ως το 1913* [History of the Greek State, Vol. XIV: Modern Greek history from 1881 to 1913], Athens 1970, pp. 65-68; Christina Agriantoni, *Οι απαρχές της εκβιομηχάνισης στην Ελλάδα τόν 19ο αι.* [The beginning of industrialisation in Greece in the nineteenth century], Athens 1986, pp. 293-300.

⁹ Alexis Frangiadis, "Αγροτική οικονομία και εξωτερικό εμπόριο [Rural economy and external trade]", in Kostas Kostis and Socrates Petmezas (eds), *Η ανάπτυξη της ελληνικής οικονομίας κατά τον 19ο αιώνα (1830-1914)* [The development of the Greek economy in the nineteenth century (1830-1914)], Athens 2006, pp. 153-174, esp. p. 160.

¹⁰ Elena Frangakis-Syrett, "Monoculture in Nineteenth-century Greece and the Port City of Patras", *Journal of the Hellenic Diaspora* 20/2 (1994), pp. 12 ff.

meant a disastrous decline in revenues, which made further servicing of the country's foreign debt impossible. Between 1878 and 1893 Greece had issued 730 million francs, an extraordinarily large sum for the hardly industrialised country with a yearly budget of about 80 million francs. A huge proportion 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 prime minister, Harilaos Trikoupis, announced that the Greek State was insolvent.¹¹

Older historiography usually saw the raisin monoculture and the above-mentioned raisin crisis as the principal reason for the backwardness of Greek agriculture and the economy in the nineteenth century. However, recent research has changed the perspective and understands the currant culture rather as presenting an opportunity for the young Greek economy to move towards the industrial era, as it provided productive challenges not only for particular regions but also for the Greek economy as a whole.¹² In any case, the currant question was essential for Greek economic welfare. In the disastrous situation of 1893 it was obvious that the production and commercialisation of Greek currants and raisins had to be protected from possible crisis. A way had to be found to deal with the surplus of about 60 million Venetian pounds¹³ per annum so as to consolidate international prices for the dried fruits. The problem was rendered even more urgent by social riots in the currant trade areas in 1895. The growers fought for better prices and strongly believed that a monopoly was the only possible solution. "Monopoly or death" was their dramatic motto.¹⁴

In the same year the Greek parliament issued an initial law which forced the storage of 15% of the crop to reduce supplies and increase prices. After Greece was put under international financial control in 1898, a so-called Currant Bank (Stafidiki Trapeza) was founded in 1899 to centralise the storage and to stabilise the market prices. The shareholders of the bank were all producers who were obliged to store a proportion of their crop. The bank worked with capital from the government,¹⁵ but the very rich crop of 1903 led to its collapse since its capital was not sufficient to buy the large surplus.¹⁶ The government was

¹¹ G. V. Dertilis, *Iστορία των Νεοελληνικού Κράτους, 1830-1920* [History of the Greek State, 1830-1920], Athens: Estia, 2010, pp. 603 ff.

¹² Frangiadis, "Αγροτική οικονομία", p. 153 f.

¹³ 1 Venetian pound (the common unit for weighing raisins and currants) correlates to 1.06 British pounds.

¹⁴ Konstantinos A. Vovolinis and Spiros A. Vovolinos, *Μέγα ελληνικόν βιογραφικόν λεξικόν* [Large Greek biographical dictionary], Athens 1958-1963, Vol. V, pp. 331, 337.

¹⁵ Pizanias, *Οικονομική ιστορία*, p. 25; Frangiadis, "Αγροτική οικονομία", p. 166.

¹⁶ Pizanias, *Οικονομική ιστορία*, p. 26.

forced to act. In anarchistic unrest furious farmers in Pylos again demanded the introduction of a currant trade monopoly to stabilise their profits, and even set fire to the local branch of the National Bank of Greece.¹⁷ The idea was to install a monopoly for the currant trade with participation of foreign capital.

The London bankers Brotherton and Backhouse¹⁸ wanted to give a huge share of the one million drachmas of capital planned for the proposed syndicate. Hambro & Son and the National Bank of Greece also wanted to participate,¹⁹ and even Rothschild seemed to be interested.²⁰ Brotherton and Backhouse revealed their motives *vis-à-vis* the National Bank of Greece:

If it be decided to adopt the scheme, and the Syndicate be finally formed, the Banks ought to help the scheme onto a successful issue; and, having regard to your and our shareholders' interests, we have every confidence that you will not be guided by the impulse of the Government alone, or by purely platonic motives; but will satisfy yourself that the terms of the Convention are of a workable character; and that those of the Syndicate are such as ultimately, if not immediately, to produce a reasonable profit to those who stake their money on the success of the scheme.²¹

They supported the scheme although the idea of a monopoly was far divorced from the liberal neoclassical approach. Nevertheless, it was a step that, in the view of the bankers, seemed necessary not only for Greece but also for the British Empire, which was to benefit,

[...] by establishing a preferential tariff for its colonies, and a tax on food, with a view to the extension of their prosperity by counteracting the effect of those gigantic trusts and syndicates of foreign nations; and at the same time of binding the Empire together, and of making its own production self-sufficing.²²

¹⁷ *Ibid.*, p. 25.

¹⁸ Edward Allen Brotherton and Robert Solomon Backhouse (managing director and attorney of the Concessions and Monopolies Ltd).

¹⁹ The convention of the planned company was printed in the newspaper *The Grocer* (6 June 1903), as a translation from *Nέο Αόρτυ* (9-23 May 1903). One half of the capital was planned to be collected through the public offer of the shares of the company at the Stock Exchange. For the negotiations between Brotherton, Backhouse and the National Bank of Greece, see the Archives of the National Bank of Greece, Athens (hereafter ETE), A1S28Y2 'F10.

²⁰ Brotherton and Backhouse to Streit [governor of the National Bank of Greece] (26 May 1903), ETE, A1S28Y2 'F10.

²¹ Brotherton and Backhouse to Streit (15 June 1903), ETE, A1S28Y2 'F10.

²² *Ibid.*

The timing for the project did indeed seem very opportune. In 1903 the rate of exchange between the drachma and the franc, which had been at the disastrous level of 1.65: 1 in 1898, started to recover. By September 1903 it had already improved to 1.54, with a strong falling tendency.²³ This was of great advantage to the holders of old Greek securities and caused a boom in these bonds in Paris and London in the following years. For a banker with good intuition, it was an inviting moment to issue Greek securities.

However, this first attempt to create a company with a monopoly on the currant trade in Greece with the participation of British capitalists failed. The main reason for this was the intervention of British merchants working to halt the project. British currant traders,²⁴ the British Dried Fruit Trade Association and the British Chamber of Commerce protested to the Foreign Office in London to stop the monopoly project, because they were concerned about free trade in currants and raisins and their own profits.²⁵ They argued that a monopoly would increase the price of a product consumed especially by the British working class.²⁶ The British Board of Trade used the opportunity to point out that the commercial treaty of 1890 between Greece and Great Britain was in any case much more useful to Greece than to the United Kingdom, so that no further concessions were possible at all.²⁷ The Greek

²³ "Finances helléniques", in *L'Économiste Européen* (25 September 1903).

²⁴ For example, George Wood to the Marquess of Lansdowne, Secretary of State of Foreign Affairs (23 March 1903), in the British National Archives (hereafter NA), FO 32/768. Wood explained that it was the nephew of the Greek prime minister, Theodoros Deligiannis, who tried to usurp the monopoly. The Greek State would get only £100,000 per year from the monopoly, a very low sum. On the other hand, the monopoly would ruin the traditional British currant trade houses, including, for example, the one owned by Wood's family. His great uncle Samuel Barff had started in the currant trade in Zakynthos (Zante) in 1816, and now his brother F. B. Wood continued it in Patras, as consul-general of Great Britain. Wood asked for the help of the Foreign Ministry against the monopoly plans. The consul-general F. B. Wood himself added that the monopoly would restrict earnings to a small group. He saw diversification of agricultural production as the only possible measure for the Greek growers (Wood to Lansdowne, [6 April 1903], NA, FO 32/768). Indeed, Dimitrios Ioannis Deligiannis was to be managing director and attorney of the planned company; see the translation of the articles of a convention to promote a company for the monopoly of currants, in the Ionian Bank Archives (hereafter IB), 1/15.

²⁵ London Dried Fruit Trade Association to the Foreign Office (17 April 1903), NA, FO 32/768; Secretary of the London Chamber of Commerce to British Foreign Ministry (3 April 1903), NA, FO 32/768.

²⁶ London Dried Fruit Trade Association to the Foreign Office (17 April 1903), NA, FO 32/768.

²⁷ Board of Trade to the Foreign Office (29 May 1903), NA, FO 32/768. On the other hand Hawey, as the British member of the International Financial Commission in Athens,

prime minister responded by saying that only the earnings of the middlemen should be lowered with no increase in prices for the British consumer, but this was of little help.²⁸ Through the protests of the merchants and the Board of Trade, the British Foreign Office was driven to intervene in Athens, pointing out that the planned monopoly company would not be compatible with the Greek-British commercial treaty.²⁹ The other ambassadors did not welcome the idea of a monopoly either, and the Netherlands, England, Germany and Italy protested.³⁰ Due to the international opposition to the project, the Greek parliament discussed the proposed convention for the company but had strong reservations. The parliamentarians changed several points of the convention, stipulating, for example, that the bankers should deposit a huge amount as a guarantee in advance.³¹ This demand shows the low level of trust between the intended contract partners. Accordingly, Brotherton and Backhouse did not accept the modifications to the convention, which had been instigated without their sanction. Indeed, they were so shocked that they withdrew their involvement.³² Their patience or perhaps daringness seemed exhausted by the emerging difficulties. Backhouse insisted that he could not relinquish his claims, which were “*a sine qua non* from a strong sense of duty, not only to our friends on this side, but also to your Excellency and the Greek Government”. He pointed out that no capitalists could be found “to put their money into it [the company], unless the blemishes we take exception to in the Convention are removed”. The bankers argued that it was a question of responsibility between confidential partners not to accept a “convention containing terms or conditions that in our opinion doomed it to certain

recommended the proposal because he did not see any alternatives in the long run (Hawey to Lansdowne [9 June 1903], NA, FO 32/768).

²⁸ British Ambassador Edwin H. Egerton to Lansdowne (10 April 1903), NA, FO 32/768. However, the ambassador saw great difficulties in the practical implementation of the monopoly.

²⁹ See the correspondence between Ambassador Egerton and the Minister of Foreign Affairs Lansdowne in NA, FO 32/768. Even the storage of 15-20% of the currant crop was interpreted as violating the trade convention between Greece and Great Britain; see London Chamber of Commerce to Lansdowne (3 April 1903), NA, FO 32/768.

³⁰ Egerton to Lansdowne (9 June 1903); Egerton to Greek Foreign Minister Skouses (24 June 1903), NA, FO 32/768. Egerton threatened the dissolution of the Trade Convention of 1890.

³¹ “Amendments required by Messrs. Brotherton and Backhouse. Submitted to the Board at their meeting of June 22th 1903. Messrs. Brotherton and Backhouse being absent”, ETE, A1S28Y2 'F10.

³² Egerton to Lansdowne (2 July 1903), NA, FO 32/768.

failure".³³ In this situation, Prime Minister Theodoros Deligiannis had to put off the passing of the necessary law in parliament, explicitly because of the foreign opposition to the project.³⁴ Instead, he forced the National Bank, the Ionian Bank and the Bank of Athens to credit 6.5 million drachmas to the Currant Bank to enable it to buy that year's crop, so as to stop the disturbances of the growers in the Peloponnese.³⁵

It became clear that before a solution for the Greek currant question could be found, a compromise had to be reached on the international level. Long proceedings between the Greek government and the governments of the Great Powers followed. In the British case, the London branch of the British-Greek Ionian Bank was active as an intermediary.³⁶ Great Britain was very interested in finding a solution, because, since 1898, the ambassadors had been simply overwhelmed by the speed of the regeneration of Greek trade and economic activity.³⁷ The new market looked very appealing for British merchants and investors, and there was a concern to secure the best conditions for British industries and trade to participate in the new opportunities. So, the British Board of Trade was willing to give the Greeks a free hand in solving the currant question, if in turn the customs on British imports to Greece were reduced.³⁸ The Greeks accepted the reduction of customs charges on some British goods, but not on all of them. Especially for textile products this was not possible, and the proceedings continued, as the Greek Foreign Minister Romanos pointed out:

To withdraw the protection of existing duties from that industry at the present moment would be to kill it at once, and thereby not only to throw a very large number of people out of employment, but to create much bitterness of feeling between the cotton and the currant industries, the latter of which the Government would be attacked for protecting at the expense of the former.³⁹

In 1904, the Greek government tried to stabilise the currant trade through a reform bill,⁴⁰ but without success. A more general solution had to be found,

³³ Backhouse to Streit (25 June 1903), ETE, A1S28Y2 'F10.

³⁴ Egerton to Lansdowne (16 July 1903), NA, FO 32/768.

³⁵ Ionian Bank to the National Bank of Greece, ETE, A1S28Y2 'F8.

³⁶ Falconer Larkworthy (Ionian Bank) to Lansdowne (16 July 1903), NA, FO 32/768.

³⁷ For example, International Financial Commission, British delegate Corbett to Foreign Minister Lansdowne (7 July 1901), NA, FO 32/742.

³⁸ Lansdowne to British ambassador Sir Francis Elliot (21 July 1904), NA, FO 32/769.

³⁹ Elliot to Lansdowne (30 August 1904), NA, FO 32/769.

⁴⁰ Currant reform bill, as passed by the Greek parliament on 17-30 June 1904, translation (14 July 1904), IB, 1/15.

but in spring 1905 the British ambassador was still struggling with the Greek government about the reduction of duties on British products. Even the duties on Greek sweets such as halva and loukoumi were discussed.⁴¹ After drawn-out wheeling and dealing, Greece gave its agreement to the reduction of duties on several British products, for example cod and stockfish, confectionary, biscuits and some cotton and jute products. The forecast loss for the Greek treasury was estimated at 247,000 drachmas per year, but, on the other hand, the United Kingdom had pledged itself not to raise the import duties on currants for the next five years.⁴² Thereafter the British ambassador at Athens suggested that the British government would not further intervene in a new arrangement of the Greek currant trade.⁴³ In November 1904 a new British-Greek declaration was signed, followed by the new trade convention, which came into effect in July 1905. It was high time for this agreement: due to the very rich crop, the Currant Bank finally went bankrupt in summer 1905.⁴⁴

In this situation, a new initiative came not from the National Bank or the Ionian Bank, but from the very recently founded Bank of Athens (BA). Its executive officer, Ioannis Pesmazoglou, presented a new plan for an international Privileged Company to Protect Production and Trade in Currants. He tried to find a solution in cooperation with the London- and Paris-based banking houses Hambro & Son and Erlanger and the Paris-based Banque de l'Union Parisienne (BUP). Of course, on the one hand, this group of capitalists counted on the absorption of the profits of the Greek currant trade;⁴⁵ but, on the other hand, the huge investment in the unstable Greek market seemed to be extremely risky, and some observers doubted the chances of profit for the investors. Indeed, profits in the early years were not overwhelming. So the question arises as to how the bankers charged the risk of the business and what kind of risk management took place between the partners. To answer this question, I will first introduce the principal actors and their personal relationships before presenting the idea of the project and the way it was discussed in the business correspondence.

⁴¹ Elliot to Lansdowne, letters of spring 1905, NA, FO 32/770.

⁴² Elliot to Lansdowne (8 July 1905), NA, FO 32/770.

⁴³ An especially difficult sub-question was the reduction of Greek customs duties for products from Newfoundland (stockfish as the most important), which was willing to abolish customs on Greek currants; see several letters in NA, FO 32/768.

⁴⁴ See Socrate D. Petmezas, "L'économie agricole grecque face à la grande crise de la première globalisation", herein, p. 104.

⁴⁵ *Id.*, "Αγροτική οικονομία" [Rural economy], in Kostis and Petmezas (eds), *H ανάπτυξη της ελληνικής οικονομίας κατά τον 19ο αιώνα (1830-1914)*, pp. 103-152, esp. p. 139 f.

The Actors and their Networks

1. Ioannis Pesmazoglou and the Bank of Athens

The man who pulled the strings in this project was Ioannis Pesmazoglou, executive officer of the BA.⁴⁶ The Pesmazoglou family originated from Asia Minor. Ioannis' grandfather had moved to Smyrna, where he and his son Georgios were consuls-general for France, before Georgios moved on to Alexandria. Here Ioannis Pesmazoglou was born in 1857, one of seven sons, most of whom became bankers and businessmen, despite their father's bankruptcy in 1873. Ioannis attended the Protestant School in Alexandria, which he left in 1875. In this year the impoverished, ambitious young man started his professional career at Crédit Lyonnais d'Alexandrie. Head of this branch was Georgios Averoff, a business partner and friend of Ioannis' father. Alongside his work Ioannis wrote articles for Egyptian newspapers; and, after Averoff had given him some start capital of his own for financial transactions, he acquired a fortune by speculating on the stock exchange. In December 1876 he founded his own private bank, which he was able to enlarge through various affiliations with other banks. He earned a great deal of money in the cotton trade with the US and at a very young age became one of the most influential bankers in Alexandria, also specialising in the transfer of money from Greek businessmen in the diaspora to their homeland. Pesmazoglou thus became interested in Greece as a financial market and started to instigate his networks in Athens. In the house of the powerful Constantinople banker Andreas Syngros⁴⁷ in Athens he met Irini, the niece of Syngros and daughter of the Greek admiral Nikolaos Miaoulis. He married her in 1888.⁴⁸ During the economic crisis of 1893 King George asked the Greeks in Egypt to help

⁴⁶ If not otherwise indicated, the following biographical information is taken from Vovolinis and Vovolinis, *Μέγα ελληνικόν βιογραφικόν λεξικόν*, pp. 324-344.

⁴⁷ In his memoires, Syngros did not mention Pesmazoglou, although he reflected on the necessity of a joint-stock bank in Athens. See Andreas Syngros, *Απομνημονεύματα* [Memoirs] (Athens 1908), new edition: ed. A. Angelou and M. C. Chatzioannou, Athens: Estia, 1998, Vol. III, pp. 40 ff.

⁴⁸ In addition, Ioannis' cousin Olympia Pasmaglou married Constantinos Zannos, member of the influential industrial Zannos family. In 1884 Constantinos' brother Aristovoulos Zannos founded Zannos, Roche & Cie together with Emmanuel Roche. This company was transformed into the Société Vinicole et d'Industries Agricoles SA in 1900, with the financial support of the BA. In 1906 the Société Vinicole was merged with the Société E. Charilaos to form the Société Hellenique de Vins et Spiritueux (see also note 119). I thank Nikos Pantelakis (Historical Archives of the ETE) for this information. The connections give an idea of how family and business relationships were intertwined.

their homeland, and in a patriotic gesture Pesmazoglou donated a huge sum to the Greek State. With his engagement he managed to attract the attention of the king, and he finally met him personally in the house of Syngros. The king honoured him for his donation with the Silver Cross. In the same year Pesmazoglou published his thoughts on the possibilities of reform for the Greek financial system.⁴⁹

Independent from Pesmazoglou's sphere of influence, in 1893 a new bank was founded in Athens as a joint-stock company (the first joint-stock bank in Greece) by a group of Greek bankers: the Bank of Athens.⁵⁰ Its key objective was to grant commercial and industrial loans to Greek entrepreneurs in Greece and abroad, especially in Turkey and Egypt. When the BA opened a branch in Alexandria in 1896, Pesmazoglou affiliated his own bank with the BA. The new organisation had capital of 4 million drachmas by this time. Only one year later Pesmazoglou won a crucial vote in BA's annual stockholder meeting against the former director, Antonios Kallegris, and so became the bank's new director.⁵¹ It should be noted that his relative Andreas Syngros and his patron Georgios Averoff took part in the meeting as important stockholders.

Pesmazoglou is said to have been a very charming and endearing character with high political ambitions and rhetorical talent.⁵² As director of the BA, he introduced the modern French-styled banking practices which he had learnt at the Crédit Lyonnais.⁵³ His new style alarmed the very conservative

⁴⁹ Ioannis Pesmazoglou, *Projet de règlement des finances helléniques*, Alexandria 1893.

⁵⁰ See ETE, <http://ha.nbg.gr/en/GeneralResMat.asp>; Kostas Kostis and Basias Tsokopoulos, *Oι τράπεζες στην Ελλάδα, 1898-1928* [Banks in Greece, 1898-1928], Athens 1988, pp. 42 ff, pp. 48-52.

⁵¹ Hubert Bonin, "La Banque d'Athènes, point de jonction entre deux outre-mers bancaires (1904-1953)", *Outre-mers. Revue d'histoire* 330-331 (July 2001), p. 18, note 14. For the first very positive report of Pesmazoglou after the first six months as director, see Ioannis Pesmazoglou, *Ἐκθεσίς τοῦ γενικοῦ διευθυντοῦ τῆς Τραπέζης Ἀθηνῶν κ. Ι. Γ. Πεσμαζόγλου πρὸς τὸ συμβούλιον τῆς Τραπέζης, εἰσηγητήριος τοῦ ισολογισμοῦ τῆς Αγρ. ἔξαμηνίας, 1897* [Record of the general director of the Bank of Athens Mr I. G. Pesmazoglou for the administrative council of the bank, on the occasion of the balance sheet, 1897], Athens 1897.

⁵² N. N., "Banque d'Athènes", *Reforme Smyrne* (20 March 1905), Historical Archives of the Banque de l'Union Parisienne (hereafter BUP), CN 253. The article reports that the Metropolitan of Smyrna Vassilios blessed the new building of the bank: "La cérémonie religieuse terminée, l'éminent et sympathique Directeur général de cet établissement financier, Monsieur Pesmazoglou, a pris la parole et dans un discours plein de charme et de figures poétiques a remercié l'assistance pour la manifestation qu'elle a bien voulu lui faire [...]."

⁵³ For example, the establishment of cashiers' desks; see Kostis and Tsokopoulos, *Oι τράπεζες στην Ελλάδα, 1898-1928*, p. 48.

Greek banking sector, especially the traditional National Bank of Greece, which had previously refused any modernisation. Pesmazoglou invested in various economic sectors: in Greek shipping companies, in the construction of the Greek railway system, road building and the tobacco trade. The BA also earned a lot of money through speculation with Spanish bonds during the Spanish-American War after 1899. Pesmazoglou furthermore developed multifaceted philanthropic interests, not only becoming the vice-president of the Society of the Friends of Technical Development in Athens, but also giving donations for the building of churches in Athens, collecting donations for the refugees from Asia Minor and giving 150,000 drachmas to the Society of Commercial Clerks to found a commercial school in Athens.

Pesmazoglou soon realised that the currant trade was one of the most important fields requiring efficient economic reform in his “new” homeland. In 1898, after only two years in Athens, he joined a congress for the discussion of the currant question and in this context published a memoir about a Greek Currant Bank.⁵⁴ The requested bank was indeed founded in 1899, as discussed above. In 1900 the BA founded a Society for Winegrowing and the Agriculture Industry with capital of 200,000 drachmas, which gave cheap credit to farmers. The capital of the BA increased to 10 million drachmas in the same year, and it was able to open branches in Romania (1902), London (1903), Constantinople (1904), Smyrna (1904) and Cairo (1905). The rapid rise of the bank continued. In 1904 the capital of the bank was increased to 20 million drachmas and shares were now offered on the Paris Stock Exchange with the help of the BUP. In the following year, the Greek Currant Bank went bankrupt, causing great unrest in the growing regions. For the BA this meant the loss of the capital invested thus far. In this situation of national emergency on the one hand, and impressive personal business success on the other, Pesmazoglou decided to intervene in the difficult currant question and to win over foreign capitalists to a monopoly company for the currant trade.

2. Banque de l'Union Parisienne, Paris

Hubert Bonin deemed that the BA was a key institution for putting Greece on the agenda of French financial interests in the Mediterranean. Although intensive business relationships had existed between some houses of the Paris Haute Banque and Greece since the 1820s, the business did indeed

⁵⁴ Ioannis G. Pesmazoglou, *Υπόμνημα περὶ ιδρύσεως σταφιδικῆς τραπέζης* [Memorandum about the foundation of a currant bank], Athens 1898.

take on a new dimension at the turn of the century, and the relationship between the BUP and the BA played a key role in this expansion. Ioannis Pesmazoglou was the person who first contacted the Paris-based BUP to propose closer relations between the two banks.⁵⁵ The BUP was founded in 1904 to profit from the possibilities of the internationalisation of banking.⁵⁶ 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. Some of them, such as de Neuflize & Cie, looked back on a long philhellenic tradition: Jean Abraham André Poupart de Neuflize II (1784-1836) had collected donations for Greece during the Greek War of Independence (1821-1829).⁵⁷ Lucien Villars was appointed as the BUP's first director, formerly responsible for international relations at the Banque de Paris et Paribas.⁵⁸ It is of course hardly surprising that the newly founded BUP, looking for lucrative investment possibilities and with its co-founder Rodolphe Hottinguer very interested in the Mediterranean,⁵⁹ was not averse to the proposals of the BA. The fact that Pesmazoglou's name was already known in French financial circles made instilling confidence even easier. With 100,000 francs, the BUP thus acquired a share in the BA in April 1904 on the occasion of the bank's increase of capital from 10 to 20 million drachmas. Simultaneously it organised the introduction of the BA shares at the Paris Stock Exchange and delegated a representative to its advisory board. Of course, this cooperation helped to strengthen the BA's reputation on the French financial market. It is important to note that the first steps of the cooperation did not cause a decrease in the risk awareness of the French bankers or make them less critical towards proposals by the Greek partners. For example, Villars did not accept Pesmazoglou's proposal for a new mining

⁵⁵ Bonin, "La Banque d'Athènes", p. 3.

⁵⁶ *Id.*, *La Banque de l'Union Parisienne (1874/1904-1974). Histoire de la deuxième grande banque d'affaires française*, Collection Ecoclio 2, Paris: PLAGE, 2000, pp. 18 ff.

⁵⁷ His grandchild André de Neuflize was educated at André & Cottier, relatives of the famous philhellene Jean-Gabriel Eynard. André was also secretary of the cabinet of François Guizot, a French politician well known for his philhellenic politics; see Nicolas Stoskopf, *Banquiers et financiers parisiens*, Les Patrons du Second Empire, 7, Paris: Picard, 2002, pp. 266 f. For the commitment to Greece, see "Secours aux grecs révoltés. Prospectus, listes de souscriptions", in the Archives Nationales du Monde du Travail, Roubaix, 44 AQ 10.

⁵⁸ Bonin, *La Banque de l'Union Parisienne*, p. 13.

⁵⁹ Rodolphe Hottinguer followed his father as a member of the board of directors of the Imperial Ottoman bank. He was one of the principal investors of the BUP; see Stoskopf, *Banquiers et financiers parisiens*, pp. 217 f.

company in December 1904.⁶⁰ In the years 1904-1905 the two banks were at the beginning of their cooperation, and one may not draw any conclusions from the fact that this collaboration continued until 1930 – at the time of the founding of the Privileged Company, the cooperation was still in its infancy.

3. Hambro & Son and Emile Erlanger, London

Before discussing what made the Privileged Company more attractive than other proposals of Ioannis Pesmazoglou, we have to look at the British partners in the business. Carl Joachim Hambro started in the eighteenth century as a trader in Hamburg. He then moved to Copenhagen as a protégé of Rothschild. Around 1850 C. J. Hambro & Son became a member of the first league of British bankers, by then situated in London. Hambro was 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.⁶¹ From 1864, Hambro & Son was the most important source of finance for Greece in Britain, due to its good relationship with the Danish royal dynasty and Prince Wilhelm. This relationship was based on concrete reasons. After the fall of the (Bavarian) Greek King Othon in 1862, a Greek delegation came to London to look for a new king for their country. It was C. J. Hambro who introduced the Greeks to the Danish Prince Wilhelm, who in 1864 became King of Greece. Hambro advanced Wilhelm £10,000 for his enthronement in Athens. He then enjoyed a privileged position in Greece as the king's personal banker.⁶² When Greece was re-opened to the international money market in 1879, Hambro energetically entered the new market and participated in 10 of the 13 loans issued to the Greek State between 1879 and 1893. Even if its engagement in Greece only reached its peak in 1920, Hambro & Son was doubtless the most important financier of Greece in Great Britain at the beginning of the twentieth century. So for Hambro & Son the relevance of a 40-year tradition of financing Greek projects and the Greek State cannot be underestimated. Seen from the Greek perspective, there were few alternatives to Hambro & Son for Pesmazoglou on the London market. However, in the case of the Privileged Company, Hambro & Son was not the principal agent on the British market: in the BUP correspondence its name is not mentioned

⁶⁰ Pesmazoglou to Villars (17-27 December 1904), BUP, CN 252.

⁶¹ Ioanna P. Minoglou, "The Rise and Fall of the House of Hambros in Greece, 1864-1940", in Hubert Bonin (ed.), *Transnational Companies, 19th-20th Centuries*, Collection Ecoclio, Paris: PLAGE, 2002, pp. 401-417, esp. p. 402.

⁶² Bo Bramsen and Kathleen Wain, *The Hambros, 1779-1979*, London: Joseph, 1979.

very often. Rather than Hambro & Son, his longstanding partner Emile Erlanger was the one corresponding regularly with the BUP and the BA.

The Erlanger family, originally situated in Heddernheim near Frankfurt and later in Frankfurt itself,⁶³ also had close connections to Greece. Emile Erlanger (born 19 June 1832) was a bill broker in Frankfurt like his father Raphael Erlanger.⁶⁴ He became consul-general of Greece in Frankfurt in 1855.⁶⁵ Of course we should not overestimate the importance of the consul-general function, which was very popular among Frankfurt bankers at this time;⁶⁶ but Erlanger did indeed use his function to initiate business relationships with Greece, and very shortly after his appointment he visited Athens and met with the director of the National Bank of Greece, Georgios Stavros. He also became acquainted with Stavros' sister-in-law and his niece. In a letter, he thanked Stavros for the very pleasant meeting and welcomed any kind of

⁶³ Unfortunately, there is practically no literature about Emile Erlanger and his bank. An exhibition catalogue gives some information about the branch of the banker family that settled in Ingelheim; see Gabriele Mendelssohn, *Die Familie Erlanger. Bankiers – Mäzene – Künstler*, Ingelheim: Leinpfad, 2005. In the benchmarks about Frankfurt financial history, Emile Erlanger and the family are mentioned very briefly. Raphael Erlanger participated in 1862 in the founding of the Frankfurter Hypothekenbank, a joint-stock bank and the first solely German mortgage bank; see Carl-Ludwig Holtfrerich, *Finanzplatz Frankfurt. Von der mittelalterlichen Messestadt zum europäischen Bankenzentrum*, Munich: Beck, 1999, p. 164; Ralf Roth, "Von der Zollvereinsgründung bis zur Annexion der Stadt, 1834-1870", in Werner Plumpe and Dieter Rebentisch (eds), "Dem Flor der hiesigen Handlung". 200 Jahre Industrie- und Handelskammer Frankfurt am Main [IHK Frankfurt am Main 1808-2008], Frankfurt am Main: Frankfurter Societäts-Druckerei, 2008, pp. 80-103, esp. p. 97.

⁶⁴ Raphael Erlanger tried several times to transfer his own concession as bill broker to his son before Emile was of full age, because Raphael himself was ill, but the Frankfurt counsel refused to give the concession to the son earlier; see Institut für Stadtgeschichte Frankfurt (hereafter ISF), Nachlassakten 1851/90. In the application we find the school certificate of Emile from the Musterschule in Frankfurt (29 June 1851), which attested to his good attainment in all subjects, especially history. Also, the Protestant preacher of the St Catharinen Church in Frankfurt attested to the young man's assiduity and intelligence. In 1853 the counsel finally gave its agreement to the transfer of the concession (17 August 1853), ISF, Rechnei nach 1816, 1907.

⁶⁵ Appointment of Emile Erlanger as consul-general of Greece in Frankfurt (26 May 1855), ISF, Rechnei nach 1816, 252. The *Staats- und Adreß-Handbuch der Freien Stadt Frankfurt*, Frankfurt am Main: Krug, 1847-1866, of the year 1856 mentions Emile Erlanger as first consul-general of Greece in Frankfurt. His father had been consul-general of Portugal since 1855, later also of Sweden and Norway.

⁶⁶ For example, Carl Mayer, Baron Rothschild, was consul-general of Parma and consul-general of Sicily, and Anselm Salomon, Baron Rothschild, was consul-general of Austria; see *ibid.*

business relationship in the future.⁶⁷ Further to this aim he enclosed a letter from his brother Raphael Erlanger in which Raphael explained the business conditions he could offer the National Bank of Greece.⁶⁸ Indeed, a first business transaction took place in April 1856.⁶⁹

In 1859 Erlanger moved to Paris where he founded his own *maison de banque* with 500,000 francs as capital.⁷⁰ He continued the contacts with the National Bank of Greece.⁷¹ In the 1860s these relationships deepened.⁷² In Paris he soon became consul-general of Greece again and kept this function for several decades. He organised the contributions of Greece to the universal exhibitions of 1867 and 1878.⁷³ Maybe anti-Semitic prejudices contributed to his reputation as a ruthless and greedy banker, but on the other hand Erlanger was well known for his widespread philanthropy. After the Franco-Prussian War of 1870, he moved to London.⁷⁴

Erlanger was largely engaged in the Mediterranean, especially in Egypt and Tunisia. At the end of the 1890s his relationship with the National Bank of Greece became even closer, and Erlanger intermediated between the Greek and French as well as Belgian banks.⁷⁵ In 1902 he participated in a railway loan for Greece together with Hambro & Son and the National Bank.⁷⁶ The first loan failed, but the very successful second and third ones of 1904 and 1906 were interpreted as signs of the economic revival of the country, as well as the resurrection of the confidence of international financial markets after the establishment of the International Financial Commission in 1898. At the beginning of the twentieth century, when the currency rate of the drachma improved, Erlanger's relationships with Greece and especially with the National Bank intensified. In June 1901 he thanked Streit, the governor of the bank, with warm words for the honour that he had bestowed on them by spending time with Erlanger's son Emile in Florence.⁷⁷ It was not only

⁶⁷ Emile Erlanger to the Governor of the National Bank (arrived 8-20 July 1855), ETE, A1S23YIA 'F53.

⁶⁸ Raphael Erlanger to Stavros (ETE) (arrived 24 June 1855), ETE, A1S23YIA 'F53.

⁶⁹ Emile Erlanger to Stavros (ETE) (April 1856), ETE, A1S23YIA 'F53.

⁷⁰ Stoskopf, *Banquiers et financiers parisiens*, pp. 162 ff.

⁷¹ Emile Erlanger to the Governor of the National Bank (1 September 1860), ETE, A1S23YIA 'F55.

⁷² Erlanger to Kanas (12 February 1868), ETE, A1S23YIA 'F53.

⁷³ Stoskopf, *Banquiers et financiers parisiens*, pp. 162 ff.

⁷⁴ *Ibid.*

⁷⁵ Emile Erlanger to Streit (ETE) (May and June 1899), ETE, A1S10Y3 'F5.

⁷⁶ Bramsen and Wain, *The Hambros*, p. 331.

⁷⁷ Erlanger to ETE (24 June 1901), ETE, A1S25Y2 'F32.

Erlanger's relationships with Greece that were well established, but also those between Erlanger and Hambro & Son. At the time when the Privileged Company was being launched the two banks, Hambro & Son and Erlanger, cooperated in many fields, and Everard Hambro used to address Erlanger in his letters very familiarly as 'mon cher Emile'.⁷⁸ The possibility of continuing this well-established 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. It may well also be the case that both bankers were impressed by the track record of the extraordinarily successful Greek banker Ioannis Pesmazoglou, who seemed to be the rising star of the promising Greek market in which both of them were variously engaged and interested.

The Privileged Company to Protect Production and Trade in Currants

Although, especially in the case of the British bankers, strong path dependencies to former investments in Greece have to be taken into account, their evaluation of the actual project is of course the key to researching their risk management techniques. What made the idea of the Privileged Company so attractive to them? To answer this question, one has to look at the purposes and conditions of the newly founded company.

In his memorandum to Emile Erlanger, Pesmazoglou pointed out that the company would contribute to the welfare of all actors in the 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."⁷⁹ He explained the problems

⁷⁸ The relationship got worse in 1909. Everard Hambro explained to his son Eric that the business practices of Erlanger were not comparable with those of Hambro: "As far as Erlanger is concerned he is simply trying to get Commissions. His thoughts are only to make money. We have so far looked at business from another point of view, and that is probably why the two names stand in a different category." He advised Eric not to collaborate with Erlanger for a new Greek loan (29 February 1909, London Metropolitan Archives [hereafter LMA], Ms. 19108). In 1911 Eric Hambro explicitly pointed out that he would not cooperate with Erlanger in the project of a loan for the City of Athens; see Hambro to the City of Athens (21 March 1911), LMA, Ms. 19109.

⁷⁹ Memorandum, "A project for the formation of a company to regulate the currant trade", IB, 10/18. Not only is this memorandum found in the Ionian Bank Archives, but also in the letter from Emile Erlanger to Pesmazoglou (18 May 1905), which is mentioned later (see note 83 below); so it seems likely that either Pesmazoglou or Erlanger sent these documents to the Ionian Bank to inform it about their plans.

of the situation. The law of June 1904 dictated that the Currant Bank was obliged to buy the surplus revenue of the non-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 currants thus collected were used only for industrial purposes and earned little income for the treasury. On the other hand, the Currant Bank was unable to fulfil its obligation to buy the surplus, because its capital was locked up in loans to the currant growers, who were not able to pay the money back because of the very bad price they got for their crop.

Pesmazoglou wanted to ameliorate this insupportable situation. His purpose was “the giving of a greater stability to the currant trade”.⁸⁰ Price crashes were to be avoided and lost confidence in the merchandise 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.”⁸¹ The plan was to found a Greek company with a capital of 20 million gold drachmas (£800,000 or 20,000,000 francs),⁸² divided into 200,000 shares of 100 drachmas each. The dividend per year was guaranteed at 6%.⁸³ A proportion of 5 million drachmas was reserved for the state-owned Currant Bank, which was allowed to deposit the full amount within four years.

Prior to 1 July of every year, the Privileged Company had to determine a price for the surplus crop, which was classified in categories. The company was obliged to buy all currants that had not been sold abroad for higher prices by the growers before this date. Export of these revenue currants in their natural state was not allowed, so as not to ruin world market prices; they had instead to be turned into wines, other alcohol or other products within the country. The company held the monopoly to sell alcohol in Greece, and it was not allowed for anybody in the entire country to make

⁸⁰ Émile Erlanger to John G. Pesmazoglou (18 May 1905), LMA, Ms. S 19106.

⁸¹ Pesmazoglou, “Projet pour la formation d’une société pour combattre la crise du raisin de Corinthe”, BUP, CN 252.

⁸² Of course, it should be noted that these sums are converted on the basis of the theoretically fixed exchange rate of 1:1 between the gold drachma and the franc. In 1905 the paper drachma was still traded at 0.23. This meant that the invested foreign capital would result in a much higher sum of paper drachmas.

⁸³ Erlanger to Pesmazoglou (18 May 1905), LMA, Ms. 19106. Beside the regular shares, the aim was to introduce 800,000 founders’ shares without any nominal value. The founders’ shares would participate up to 50% of the profits after 6% had been paid on the normal shares and a certain amount to the reserve.

alcohol from any materials other than raisins.⁸⁴ The company had to pay taxes to the treasury on all exported currants, so the treasury could count on a fixed sum in time. In return, the company received a fee of 19 drachmas per 1000 Venetian pounds on the dried fruits exported earlier in the year, which was nearly double the sum it had to pay to the treasury. It had to provide warehouses to store all of the harvest for free. For this duty it received an additional tax of 7 drachmas per 1000 Venetian pounds on the total amount of currants produced. Pesmazoglou counted on an annual profit of about 4 million drachmas, equal to 5% of the invested capital. For the missing 1% of the dividend Pesmazoglou seems to have depended on the exchange rate profits and a surplus resulting from a possible growth in consumption or decline in the crop. On the other hand, he saw dangers for the company if more than 330 million Venetian pounds of currants 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 Greek monopoly abroad.⁸⁵ Of course, in his memorandum Pesmazoglou did not mention the objections raised by the small Greek currant merchants to the monopoly nor the strong opposition of Greek legislators. His partners must have known about these problems, because they were not surprised when troubles in the Greek parliament emerged later on.

The Establishment of the Company

Already in 1903 Pesmazoglou started travelling to London and Paris to check the situation for the Privileged Company, though the first concrete pre-negotiations in 1905 were obviously carried out by brokers. On the one hand, a commission of £500 for a Mr de Zoete is mentioned;⁸⁶ on the other hand,

⁸⁴ So, in fact, the law gave a kind of monopoly to the company. Besides, Pesmazoglou planned to produce and export sweet and dry wines to all of Europe excluding France and Italy; see Pesmazoglou to BUP (4 August 1905), "Annexe indiquant le détail de l'utilisation du raisin sec à la disposition de la Société". He also intended to use the alcohol for lighting and automobiles, BUP, CN 252.

⁸⁵ Erlanger to Pesmazoglou (18 May 1905), LMA, Ms. 19106. In this letter Erlanger agreed to participate and to buy 50,000 shares (£4) and 200,000 founders' shares (£1) if Pesmazoglou were able to find guarantors for the remaining shares by the following summer; further conditions were that the law be passed by the Greek parliament and that all shares were issued by first-class banking houses in Paris, Greece, Egypt and London.

⁸⁶ Hambro to Erlanger (23 May 1905), LMA, Ms. 19106.

Sauerbach, Thalmann & Cie charged commission fees for the intermediation of 1.5 francs per share before Pesmazoglou sent the first draft of his project to the BUP.⁸⁷ It is not clear why these intermediaries were necessary since the BA and BUP were already in contact. Obviously not only the partner, but also the project itself needed influential and trustworthy advocates. In his drafts, Pesmazoglou emphasised his long preparative deliberations with the members of the Greek cabinet⁸⁸ and he also published his considerations in a memorandum.⁸⁹ Later on, Pesmazoglou managed to induce Edmond Théry, the editor of the journal *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 the currant trade, which he gave to those he hoped to win as partners. The memorandum strongly reinforced his plans.⁹⁰

So the Greek banker was clearly going to win the French group for his plans, but how did he come into contact with the British group? First of all, Pesmazoglou journeyed to London, where he discussed his ideas with the Dried Fruit Trade Company.⁹¹ He indeed managed to persuade them to join his project, by guaranteeing them a voice in the administrative council of the company and a sum of at least £5000 and at most £20,000 per year for advertising currants in Great Britain.⁹² In this way he not only avoided further problems with the lobbying group but even pushed it to write a letter to the Foreign Ministry, asking for political assistance for the new monopoly company. In fact, this time the Foreign Ministry did not intervene, notwithstanding the protests of some individual merchants

⁸⁷ Sauerbach, Thalmann & Cie to BUP (16 May 1905), BUP, CN 253. Sauerbach wanted to give half of that commission to the BUP; BUP, CN 205.

⁸⁸ "Projet de creation d'une société privilégiée d'industrie viticole", BUP, CN 252.

⁸⁹ Ioannis G. Pesmazoglou, *Περὶ διαρρυθμίσεως τοῦ σταφιδικοῦ ζητήματος. Εἰσήγησις καὶ ἐπεξήγησις αὐτού* [About the solution of the currant question: proposal and explanation], Athens 1905.

⁹⁰ Edmond Théry, "Projet pour la formation d'une société pour combater la crise du raisin de corinthe", BUP, CN 252; Rapport de M. Edmond Théry, in ETE, A1S28Y2 'F23. In his book, published in 1905, Théry gave a similar blueprint of the project, which corresponds with Pesmazoglou's concept; see Edmond Théry, *La Grèce actuelle au point de vue économique et financier*, Paris 1905.

⁹¹ This journey was even mentioned in the record of the British ambassador; see Elliot to Lansdowne (18 May 1905, 24 May 1905), NA, FO 32/770.

⁹² Elliot to Lansdowne (18 May 1905, 24 May 1905), NA, FO 32-770; London Dried Fruit Trade Association to Lansdowne (21 June 1905), NA, FO 32-770.

against the planned monopoly.⁹³ After his return to Athens, Pesmazoglou explained his idea in great detail to the British ambassador and pointed out that the monopoly would not increase the price of currants for the British public.⁹⁴

How did Pesmazoglou come into contact with the British financiers? In the case of the Hambros, it should be noted that in 1903 the bank was already interested in the project of a Greek monopoly company, which in the end was not carried out; but in 1905 not Everard Hambro but Erlanger was Pesmazoglou's first contact person. The contact was organised through Demetrios Georgiades, who had been an extraordinary agent of Erlanger's for several years. Georgiades had tried to set up a company for the currant trade himself but failed. After this failure he proposed that Erlanger should be won over as a partner in the BA's plans. Obviously there was no possibility for Pesmazoglou to contact Erlanger without the detour via Georgiades, although the relationship between the two Greeks was poor. The conflict worsened during the proceedings and, after a certain point, Georgiades actually tried to stop Pesmazoglou. He damaged Pesmazoglou's project by publishing articles in Greece which described the Privileged Company as exploitation of the country. Georgiades furthermore tried to persuade Erlanger that the project was dangerous.⁹⁵ What caused Georgiades' change of mind? Apparently there was great competition between the two bankers. Georgiades was established as a financial expert for Greece in Paris – a position which Pesmazoglou tried to conquer and to monopolise for himself – but Georgiades also profited from excellent connections in French financial circles⁹⁶ and published several memoranda on the Greek financial situation in French newspapers.⁹⁷ After

⁹³ For example, the Greek merchant Schinas protested about the fact "that a clique composed of several influential persons is endeavouring to obtain a kind of covert monopoly of the currant trade"; Schinas to Lansdowne (24 May 1905), NA, FO 32-770. The Board of Trade clarified that it had no further objections to the Greek proposals (31 May 1905), NA, FO 32-770.

⁹⁴ Elliot to Lansdowne (June 1905), NA, FO 32-770.

⁹⁵ Pesmazoglou to Villars (19 September – 1 October 1905), BUP, CN 252.

⁹⁶ See, for example, Paul Beauregard, "La question financière en Grèce", *Le Monde économique* (13 October 1910).

⁹⁷ Démétrius Georgiades, "Le développement économique de la Grèce contemporaine" (extract from *L'Économiste français*, 6 February 1892); *id.*, *La Grèce économique et financière en 1893. Réponse à M. E. F. G. Law, délégué de gouvernement anglais*, Paris 1893; *id.*, *La Grèce et ses créanciers avec introduction de Paul Beauregard (Articles publiés dans le Monde économique les 22. et 29.9. et les 6., 13. et 20. octobre 1894)*, Paris 1894; *id.*, *Les jeux olympiques à Athènes (Extrait du Monde économique des 9. et 16.5.1896)*, Paris 1896; *id.*, *Les associations coopératives helléniques à la fin du XVIII^e siècle et les sociétés par actions modernes en Grèce*

the turn of the century Georgiades advertised intensively for the unification of Greek foreign debt.⁹⁸ Obviously Georgiades' activities in Paris constituted serious competition for Pesmazoglou.

The conflicts between the two Greeks were to escalate in the midst of the proceedings of the Privileged Company. In a letter to the BUP's director, Villars, Pesmazoglou painted a quite unpleasant picture of Georgiades and pointed out his very bad reputation. He told Villars that Georgiades had been banished from the Ottoman Empire because of his attempts to blackmail the Ottoman government, and that he later had to leave Paris because of conflicts with the Comptoir d'Escompte and the Greek diaspora banker Vlasto.⁹⁹ The letter is clearly an attempt by Pesmazoglou to destroy Georgiades' reputation. The reason is obvious from the sources: when it became clear that the business was becoming established, Georgiades claimed the position of an administrator on the administrative board of the Privileged Company. Pesmazoglou refused to give him this position. The conflict about this question continued for several months before Pesmazoglou finally succeeded in pushing his competitor Georgiades out of the Privileged Company – a goal he achieved only by threatening to retire from the council himself if Georgiades should join it.¹⁰⁰ Important for our question is the fact that Erlanger's involvement in the Privileged Company was due to his "own" broker, with whom he had well-established relationships; it was not possible for another Greek banker to circumnavigate this agent on the way to Erlanger. The conflict between Pesmazoglou and Georgiades shows how very important and hard-fought the broker's position on the French financial market was.

Once the contacts to the foreign capitalists were in place, thanks to the brokers, Pesmazoglou sent his proposal to them. The reaction of the international partners to his plan was positive – and very swift. A letter from Everard Hambro to Emile Erlanger written from Paris on 23 May 1905 informed the latter that the hearing with the BUP had already successfully taken place. All the bankers were interested in a huge consortium to split the investment risk, and the British were willing to pay the costs for this shared risk management. The claims of the French were quite demanding, but Hambro explained, that "Je suis convaincu qu'on n'arrivera pas à les réduire."¹⁰¹ In accordance with ordinary banking practice, all participants received commission as follows: the BUP got 200,000 francs, Erlanger (who

(*Extrait du Monde économique des 5., 12. et 19.10.1907*), Paris 1907.

⁹⁸ "Projekte mit den griechischen Schulden", *Frankfurter Zeitung* (20 February 1910).

⁹⁹ Pesmazoglou to Villars (19 September – 1 October 1905), BUP, CN 252.

¹⁰⁰ *Ibid.*

¹⁰¹ Hambro to Erlanger (23 May 1905), LMA, Ms. 19106.

obviously had to share with Hambro) and the BA each received 100,000.¹⁰² The bankers were united in doing everything to prevent the business appearing too speculative. The interesting fact is that there was no discussion at all about whether the project in general should be carried out or not. The willingness of the partners to participate seems to have been clarified through the brokers before the first serious proceedings started.

In the following months Pesmazoglou tried to win the Greek government and the parliament over to the project and to coordinate the interests of the Greek side with those of the foreign capitalists. For example, the BUP tried to push back the Greek Currant Bank and its participation in the company's profit. Pesmazoglou replied that the participation of the Greek Currant Bank was necessary to win over the majority of deputies in parliament and to make the project more popular.¹⁰³ He also managed to persuade the National Bank of Greece to enter into a huge participation of 2.5 million drachmas.¹⁰⁴ This participation of the prestigious bank was very important for the reputation of the project. During the parliamentary proceedings Pesmazoglou had to adapt to each decision and modification of the contract with numerous telegrams and letters exchanged with the BUP.¹⁰⁵ The foreign banks did not generally empower their Greek partner, but wanted to make all decisions on their own. They explained their caution through mentioning their "responsabilité morale" *vis-à-vis* their partners and clients.¹⁰⁶ However, this was not the only reason why the proceedings became complicated. In Greece not everybody agreed with the proposal. Its antagonists were afraid that the company would destroy all the small currant trade businesses in the country. They blamed the company for enriching foreign capitalists at the cost of the successful currant growers who did not actually need any help.¹⁰⁷ The discussions in parliament were excited, but after a session of 48 hours Pesmazoglou was able to inform the BUP that the second reading of the law had been passed.¹⁰⁸ After "débats orageux" the law was finally accepted on 29 July 1905 at five o'clock in the morning.¹⁰⁹

After the law was passed, there was no time to be lost. In August the capital of the new company was collected from the participants.¹¹⁰ The BA

¹⁰² Villars to Pesmazoglou (26 May 1905), BUP, CN 252.

¹⁰³ Pesmazoglou to BUP (7 July 1905), BUP, CN 253.

¹⁰⁴ Pesmazoglou to BUP (12 July 1905), BUP, CN 253.

¹⁰⁵ Pesmazoglou to BUP (18 July 1905), BUP, CN 253; BUP to Pesmazoglou (12 July 1905), BUP, CN 253.

¹⁰⁶ Hambro to Erlanger (23 May 1905), LMA, Ms. 19106.

¹⁰⁷ For example, an article in an unnamed Greek financial newspaper, which Elliot translated for Lansdowne (4 July 1905), NA, FO 32-770.

¹⁰⁸ Pesmazoglou to BUP (27 July 1905), BUP, CN 253.

¹⁰⁹ Pesmazoglou to BUP (29 July 1905), BUP, CN 253.

¹¹⁰ The BA was bound to install the company within 30 days after the convention was

was the largest stockholder with 27,000 shares (each at 250 francs), followed by the English group with 17,500.¹¹¹ La Marseillaise took 5000, while the BUP took only 3000, in spite of the high level of commission they had earned.¹¹² The houses of the Paris Haute Banque, such as Heine & Cie (800), Mirabaud (400), Dreyfus (100), Vlasto (200) and de Neuflize (1200), to mention only a few examples, contributed as well. Sauerbach, Thalmann & Cie, who had been brokers for the business, bought 1000 shares. It is very interesting to see that even the managers of the BUP bought Privileged Company shares on their private accounts as well: Villars 250, Wehrung 100, Barbé 100 and Lustgarten 50. Edmond Théry, the author of the memorandum mentioned above, bought 200 shares.¹¹³ The actors in this business must really have counted on the success of the company.

The Privileged Company was able to start its business in August, so that the crop of 1905 could be merchandised. Conflicts about the special treatment of the state-owned Currant Bank continued, for example the question of whether this bank had to contribute to the commissions for the brokers or not (as it finally had to).¹¹⁴ Also the discussions about the composition of the board of administration of the Privileged Company continued.¹¹⁵ The BUP hesitated about whom to appoint as a member of the board of administration of the new company and decided finally on Zaphirios Matsas, the later successor of Pesmazoglou at the BA.¹¹⁶

The introduction of the stock at the Athens and Paris stock exchanges in November 1905 did not achieve the desired success. The BA bewailed the

signed; see convention (13-15 July 1905), NA, FO 32/770.

¹¹¹ Or £700. The balance sheet totals of Hambro at this time were about £5,500,000, so the sum invested in these Greek stocks was comparatively small; see Bramsen and Wain, *The Hambros*, p. 330.

¹¹² Nationalbank für Deutschland, the German bank with the closest relations to Greece, bought 400 shares; see Overview of shareholders, ETE, A1S28Y2 'F23.

¹¹³ *Société privilégiée pour la protection et le commerce du raisin de Corinthe* (29 August 1905), BUP, CN 252.

¹¹⁴ For example, BUP to BA (12 September 1905), BUP, CN 253.

¹¹⁵ The Greek government was represented by a royal commissioner; see Memoir Conseil d'administration, BUP, CN 252.

¹¹⁶ Wehrung to Villars (20 August 1905); Pesmazoglou to Wehrung (1-14 August 1905), BUP, CN 252. Matsas later came into conflict with the law; see Bonin, "La Banque d'Athènes", p. 19, note 28. See also Z. K. Matsas, *H ἀλήθεια ἐν τῇ ὑποθέσει τῆς Αθηναϊκῆς Τραπέζης* [The truth in the affair of the Bank of Athens], Athens 1914; *id.*, *Η ὑπόθεσις τῆς Αθηναϊκῆς Τραπέζης κρινομένη ἀπὸ τὸν κόσμον τῶν ἐργασιῶν* [The affair of the Bank of Athens, judged from the order of works], Athens 1915.

bear market of the shares, which in Pesmazoglou's opinion resulted from intentionally launched rumours.¹¹⁷ The syndicate for the support of the offering was extended until December 1906 to avoid a further decrease in the share price.¹¹⁸ During this time Pesmazoglou tried to complete the organisation of the currant trade and its development. He enforced the foundation of a Société Vinicole for the production of alcohol and other commodities from currants, using 6 million drachmas of capital, of which the BA took over 2.35 million.¹¹⁹ Success was moderate, but stable. Even if its shares did not boom on the stock exchange, the Privileged Company organised the efficient execution of the currant trade and achieved its aim of stabilising international prices for raisins, though at a lower level than before 1893. Especially for the farmers, the stabilisation of their income was of enormous relevance.¹²⁰ The British merchants were content with the work of the company,¹²¹ and the shareholders received their dividend of 6% each year until the outbreak of the Balkan Wars in 1912 worsened the situation.¹²²

The Personal Outcome for Ioannis Pesmazoglou

For Pesmazoglou himself the project of the Privileged Company was not only his biggest personal success, but also the starting point of his political career. The king honoured him with the Order of the Saviour, and newspapers trumped each other in praising him and lauding the benefit of the newly founded Privileged Company for the Greek people. An article in the *Reforme Smyrne* glorified his

¹¹⁷ BA to BUP (23 November 1905), BUP, CN 253. Pesmazoglou suspected his enemy Georgiades; see "Copie des télégrammes communiqués par MM. Erlanger & Co", BUP, CN 252. Greek Prime Minister Rallis was asked to act as an arbiter between the two Greek bankers because their differences endangered the whole project, but refused. The BUP anyway advised the Greek partner not to buy any additional shares but left the support of the shares to the French partners; see BUP to BA (21 December 1905), BUP, CN 253.

¹¹⁸ Sauerbach, Thalmann & Cie to BUP (14 May 1906); Acte syndicate, BUP, CN 252.

¹¹⁹ Pesmazoglou to Villars (1-14 February 1906), BUP, CN 252. The BUP was not very enthusiastic about this plan for a new company that would change only the etiquette but not the manner of acting; see Villars to Pesmazoglou (9 February 1906), BUP, CN 253. One of the companies united to create the Société Vinicole was Zannos, Roche & Cie, property of Pesmazoglou's relative Aristovoulos Zannos; see also footnote 48 above.

¹²⁰ On the further development of prices, see Frangiadis, "Αγροτική οικονομία", p. 167.

¹²¹ International Financial Commission to the British Foreign Office (10 September 1906), NA, FO 32/770.

¹²² On the currant trade after 1910, see Frangiadis, "Αγροτική οικονομία", p. 167 f. In 1913 the company had to struggle to pay the dividend; see J. Courcelle to ETE (21 June 1913), ETE, A1S28Y2 'F23.

contribution to the welfare of the country: “[...] 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”.¹²³ So it is not astonishing that in 1905 the banker became the Deputy of Kalamata in parliament, where he was a follower of Theodoros Delagiannis' party, continuing activities after Delagiannis' assassination in June 1905 under his successor, Dimitrios Rallis. Pesmazoglou was even introduced as a certain future candidate for the position of minister of finance,¹²⁴ and a street in Athens was named after him in 1905.¹²⁵

One can concede that Pesmazoglou had been very successful in communicating the new Privileged Company as an organisation of extraordinary usefulness to the welfare of Greece, both within the country and abroad. Furthermore, for the BA the project involved an important positioning within the organisation of Greek export trade and the economy and a remarkable position of power *vis-à-vis* the Greek government.¹²⁶ It also enabled Pesmazoglou to present himself as a competent and brave financial authority. In 1906 Pesmazoglou was elected to parliament as Deputy of Attica and was addressed as the third most important man in Rallis' party. In parliament he commented not only on banking matters, but also on more general economic questions, such as the funding of the Greek army.¹²⁷ His political career was on a very successful path, when in November 1906 he suddenly fell ill with sepsis and died on 24 December. For several weeks the Greek newspapers were full of obituaries.

His death was also a hard blow for the BA and its international partners. Even during his illness, there were already excited telegraphic discussions amongst the managers of the BUP about his successor: “Il faut craindre les

¹²³ N. N., “Les élections parlementaires et M. J. Pesmazoglou”, *Reforme Smyrne* (21 September 1905), BUP, CN 253. The author reported that Pesmazoglou was requested to stand as a candidate at the parliamentary elections by a spontaneous movement of the people, but declined because he thought he could better serve Greek affairs in his position at the BA – a very patriotic and heroic abstinence, the journalist pointed out.

¹²⁴ N. G. Amira, “M. Pesmazoglou”, *Reforme Smyrne* (20 July 1905), BUP, CN 253.

¹²⁵ Vovolinis and Vovolinis, *Μέγα ελληνικόν βιογραφικόν λεξικόν*, p. 339.

¹²⁶ Frangiadis, “Αγροτική οικονομία”, p. 167.

¹²⁷ He bewailed that the Greek army was the only one in the world which was financed mainly through lotteries; see Vovolinis and Vovolinis, *Μέγα ελληνικόν βιογραφικόν λεξικόν*, p. 338 f. In 1904, he had already published a memorandum about the valuta crisis in Greece: Ioannis G. Pesmazoglou, *Υπόμνημα περὶ τοῦ καταλληλοτέρου μέσου πρὸς ἄρσιν καὶ ριζικὴν θεραπείαν τῆς νομισματικῆς κρίσεως* [Memoir about proper measures for the enhancement and the root therapy of the currency crisis], Athens 1904.

intrigues de tous côtés relatives à successeur Pesmazoglou.”¹²⁸ When his death was announced, the shares of the BA at the stock exchange in Athens declined dramatically, and the National Bank of Greece and the BUP had to warn the shareholders of the BA not to panic.¹²⁹ At least the affiliation of the BA with the Industrial Bank and the small Bank of Mytilene, which had been organised by Pesmazoglou in the last months of his life, could be implemented. This further increased the capital of the BA up to 40 million drachmas. The Privileged Company also survived the death of its founder,¹³⁰ but the other huge project which Pesmazoglou tried to realise was aborted with his death. In proceedings with Hambro & Son, Erlanger and Rothschild, he had tried to obtain the unification of Greek foreign debt and its conversion into drachmas.¹³¹ This idea could not be implemented after Pesmazoglou was dead – he was the person who held the personal confidence of the foreign bankers. His competitor Georgiades picked up the project and tried to push it through repeatedly until World War I, but without success. The BUP continued its cooperation with the BA, but became more sceptical and tried to expand its influence within the bank’s organisation. In 1906 Charles Wehrung joined the BA’s board of directors as second administrator, and in 1910 André de Neuflize became third administrator to deal with the serious problems with the branches in Egypt that had been erupting since 1908.¹³² The quite stable basis of trust between the BA and BUP seems to have suffered serious damage after the loss of Pesmazoglou’s charming personality.

Conclusion

This article started with the question of how trust in the banking business can revive after the bankruptcy of a state and severe economic crisis. In order to address this question, the project of the Privileged Company to Protect Production and Trade in Currants was researched. A first attempt to found this institution in 1903 failed due to the adverse framing of international mercantile law and due to deficits of trust between the partners. The second

¹²⁸ Villars to Wehrung (10 December 1906), BUP, CN 253.

¹²⁹ Vovolinis and Vovoloni, *Μέγα ελληνικόν βιογραφικόν λεξικόν*, p. 334.

¹³⁰ The Athens newspaper *Άστυ* published several articles on him with the headline: “On the life of a colossus of progress: the history of Pesmazoglou. The whole life and the instructional details of the social and financial rise of the self-acting big man, after authentic information for our newspaper” [my translation]; see *ibid.*, p. 325.

¹³¹ *Ibid.*, p. 341. The first French administrator was Léon Zarifi in 1904; see *ibid.*, p. 57.

¹³² Bonin, “La Banque d’Athènes”, p. 58. Bonin depicted in detail the further cooperation of the BA and the BUP until 1953, when the BA was affiliated to the National Bank of Greece.

attempt in 1905 was successful. The design of the project itself played a key role in this success. It not only promised to solve the complicated and long-lasting currant question, but allayed the financial problems of the state budget. Additionally, it undertook to stabilise the currant market and domestic Greek politics by appeasing the growers. Especially for investors already involved in the Greek market in other projects, like Hambro and Erlanger, these issues were extremely relevant. However, a high dividend for the foreign investors was also promised, which could indeed be realised due to exchange rate profits. So the Privileged Company could be presented as a win-win situation for all actors involved.

It becomes obvious that, beside the design of the project itself, in a situation of crisis the figure of the broker plays an essential role in the regeneration of trust. Ioannis Pesmazoglou's personal share in the construction of the Privileged Company can hardly be overestimated. This extraordinarily successful banker presented himself as a progressive self-made man, as a socially and politically responsible and competent specialist for Greek finances, not least due to his rhetorical talent and negotiation skills. Relevant in this context were not only his journalistic abilities and philanthropic activities, but also his political commitment as a member of the Greek parliament and his aspirations in the Ministry of Finance. His family networks were also helpful to intensify his excellent connections to Greek industry. These skills, together with his winsome personality and business intuition, made cooperation with him very attractive for the foreign capitalists trying to expand their market share in the obviously fast-ascending Greek economy. The competitive situation and grim conflict with the Paris-based Greek broker Demetrios Georgiades, who used similar methods of presentation, show how hard-fought the position of the specialist broker for Greece was. Pesmazoglou was able to win this fight at the moment in question and to realise the project without Georgiades. It was personal trust in a certain person which led to the successful establishment of the Privileged Company at breathtaking speed. After Pesmazoglou's premature death in 1906, the cooperation between the BA and the foreign bankers became more complicated,¹³³ and they pressed for extended possibilities of control instead of trust.

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¹³³ In 1909, Hambro refused to participate in a Greek state loan because it was communicated by the BA and not by the National Bank of Greece; see Everard Hambro to Eric Hambro (29 February 1909), LMA Ms. 19108.