

Foreign Banks and Foreign Investment in the United States

Mira Wilkins
Florida International University

I am not a banking historian. Indeed, if I were to be a self-critic, I would say that in the past my treatment of banks has been scant and inadequate. When this project began, it had two parts -- the first dealing with banking structures and the second with banks and industrial multinational enterprises. Rondo Cameron invited me to participate in the segment on banks and multinationals -- and specifically on banks and American multinationals. I demurred, because for over a decade I have been doing research on the history of foreign investment in the United States and I did not want to sidetrack my present efforts. Yet, since I had at that time just completed a draft of a chapter on foreign banks in the United States (1875-1914), I offered to prepare a paper on foreign banks and foreign investment in this country. Rondo Cameron graciously accepted my alternative.

By the fall of 1984, we had decided that there would be two, later extended to more than two, symmetrical contributions on foreign banks and foreign investment in debtor nations. The Russians would do one on foreign banks and foreign investment

BUSINESS AND ECONOMIC HISTORY, Second Series, Volume Fourteen, 1985.
Copyright (c) 1985 by the Board of Trustees of the University of Illinois. Library of Congress Catalog No. 85-072859.

in Russia. I would do a similar paper to cover the United States. Before 1914, the United States (like Russia) was a debtor nation in world accounts, owing more to others than was owed to her. In the fall of 1984, Rondo Cameron, Richard Sylla, and I met with two of the Russian participants, and we enlarged the scope of the conference, adding a new section on foreign banks and foreign investment. Following Valeri Bovykin's suggestions, the contributors to that part will deal with how foreign banks fit into the overall panorama of foreign investments in specified capital-receiving countries. As Rondo Cameron has indicated, the plan is to present the papers at a meeting in Bellagio, Italy, in August 1985.

In the years 1870-1914, the period the Cameron/Bovykin Bellagio conference will cover, America was host to long-term foreign investment from many European countries, from Canada, and to a very limited extent, from elsewhere. Britain was by far our largest source of foreign investment, followed by Germany, Holland, and then France, Canada, Switzerland, Belgium, Sweden, and so forth. While in our early history as a nation, much of the foreign investment had gone into federal, state, or local government securities, or state-backed securities, after the mid-1870s foreign investment in the United States went overwhelmingly into the private sector.

The largest single attraction for such investments, from roughly 1880 to 1914, was the railroad. It is an error, however, to assume that it is enough to discuss only foreign investments in railroads. Foreign investment -- long-term, nonresident investment from abroad -- went into American land, farm mortgages, mining, manufacturing (from steel mills to aspirin factories), distribution facilities, power and light corporations, telephone companies, fire insurance offices, and indeed, into most sectors of the American economy. There were some neglected ones (from furniture to residential housing), but the surprising conclusion of my new book [1] is how much of the American economy was affected in an important manner by foreign investment.

Where did international banking fit into this picture? To what extent were foreign banks responsible for the intermediation of long-term capital into the United States? To what extent did foreign banks extend themselves into America? What did they do when they established an American presence?

Both American and foreign-headquartered banks facilitated the influx of foreign capital. The Cameron-Bovykin project is organized in such a manner that the international activities of US banking institutions -- private and corporate -- will be covered by Vincent Carosso and Richard Sylla. Thus, I am not going to consider here, or in my Bellagio paper, the important role of US-headquartered banks in pulling in foreign monies.

Foreign capital's passage to the United States, the process by which long-term foreign claims developed against US assets, took various routes, some of which involved foreign banks (and domestic banks) and others of which did not. In my Bellagio paper, I am going to use the word "banks" broadly, including merchant and investment banks, as well as banks of deposit.

In the main, by the late nineteenth and early twentieth century, railroads used financial intermediaries to underwrite securities, to raise monies domestically and internationally. Railroad shares and bonds were traded on foreign stock exchanges. Banks in Europe handled new issues, arranged for listings on the stock exchanges for both new and existing securities, saw to it that dividends, interest, and the principal (when appropriate) were paid to the investor in a familiar currency; investors did not want to worry about foreign exchange. For new issues, merchant bankers made arrangements, helping railroad companies to price the security and to decide whether a dollar, sterling, or franc issue was the right one. Banks provided financial advisory services. If a railroad had problems meeting its obligations, bankers aided in financial reorganizations. In the railroad mergers at the turn of the century, foreign bankers played a catalytic role. In addition, a number of foreign banks, especially British and Canadian ones, owned American railroad securities as part of

their investment portfolios, thus becoming "foreign investors." Banks were involved with both new issues and existing securities.

Banks abroad were not only participants in US railroad finance, but in American industrial finance as well. Here the story is more complex, and a bit obscure. While the professionalization of railroad finance is now relatively easy to document, international industrial finance is more difficult. The Cameron-Bovykin project is entitled "International Banking and Industrial Finance, 1870-1914"; to fulfill my obligations properly, I must spend time on "industrial finance."

There were a number of distinct types of long-term foreign investment in American mines and manufacturing (assuming these are the sectors that go under the heading "industrial"). In my book and in this paper, I am dealing only with long-term investment, excluding short-term trade financing -- unless the latter became transformed into a long-term claim on assets.

Certain types of industrial finance closely resembled the financing of US railroads. In 1874, for example, Joliet Iron & Steel Company raised money in Britain; a promoter (David Chadwick) made the arrangements. This same promoter had earlier handled similar financing for American railroads. Later, foreign banks would play the same role in US industrial finance as they had vis a vis US railroads. Thus, American Smelting and Refining Co., for instance, arranged through banking intermediaries to have its securities sold in Europe; so did Studebaker Corporation. In these cases, American industrial firms used basically the same financial infrastructure set-up in Europe many years earlier for selling US city, state, and federal government bonds, then US railroad securities, and, in the early twentieth century, selected US industrials.

In mining and oil, in London, Paris, Frankfurt, and Berlin, a group of bankers excelled in handling these particular securities; many of these same bankers were directly involved in the metals trade. Mining, smelting, and refining enterprises often required substantial capital, thus serving to encourage the integration of the trader-banker with the actual mining and mineral processing

(the reasons for this integration apparently extended beyond capital requirement concerns). Bankers-cum-traders in food commodities appear to have been less closely associated in backward integration into production (growing as well as food processing) -- although this is a subject that warrants more research.

Another type of US industrial finance from abroad was quite different. In some industrial activities (mining, breweries, flour milling, and meatpacking are examples) in these years, a British-incorporated company would be organized by promoters and floated. The company would take over American properties. Thus, Pillsbury-Washburn, America's leading flour maker was "floated" in London. Likewise, a British syndicate "took over" Hammond, one of the four principal US meatpackers. Foreign bankers sometimes got involved in this sort of activity, if not at origin, later in the process. Their participation ranged from being "bankers" for -- that is, carrying on banking functions -- the headquarters company in London, to arranging transfers of securities, to giving advice when something went wrong. That securities be liquid and easily traded was a very crucial part of both speculation and industrial finance, especially when dealing with the overseas business.

Gold is a monetary metal. Merchant bankers traded in gold. They also had interests in American gold-mining. This provides a very special case of "industrial finance."

Another type of industrial finance of this era was banker-initiated, but with industrial multinational enterprises. Thus, the Deutsche Bank, for example, involved A.E.G. and Siemens in the Edison General Electric Co. (the predecessor of General Electric Company).

Some banks followed entrepreneurs. A member of the Wallenberg family started a cream separator company in the United States. The Stockholms Enskilda Bank financed the new manufacturing enterprise.

Still a different case of foreign investment in US industry was that of the typical multinational corporation. For this period, the banker's role is hard to document, and in most instances appears to have been minimal. Nonetheless, for capital-intensive activities, there was a presence. When L'Aluminium Francais, which comprised the leading French aluminum producers, decided to build an aluminum plant in the United States (1911-1912), the initial financing came from Banque Franco-Americaine and then from Credit Lyonnaise and Banque Louis Dreyfus. When the Royal Dutch Shell invested in Oklahoma (1912), the French Rothschilds participated in the investment, with a contribution to equity.

These are but examples. Clearly, there was a broad spectrum of different types of foreign bank involvement that expedited the growth of long-term foreign investment in the United States. But, what of the banks themselves? To carry out such activities, did they need to extend themselves internationally into America? Did foreign banks move into the United States, growing as banks?

In my paper for the Bellagio conference, I plan to show the type of representation the Barings, the Rothschilds, and other British merchant bankers had in the United States. I will also show the associations and give the names of the US representatives of the German banks, including the Deutsche Bank, which had important American business. Dutch and French banks had New York connections. In the space allotted for this presentation, it is impossible to even hint at the numerous international banking interconnections. All I can say, simply put, is that banks and bankers in Europe that handled American securities had correspondents, nonexclusive and exclusive agents, representatives, and/or interlocking partnerships in the United States. Most (but not all) of these relationships appear to have been with private banks. Some were formal. There also coexisted a network of highly significant informal international associations, wherein bankers who traveled across the Atlantic (and many did so frequently) would brief one another. Sir Ernest Cassel in London, for example, and Jacob Schiff of Kuhn, Loeb wrote letters, as did many others. Additional networks related to American securities

had London as a hub, with bankers from the continent exchanging information with informed London bankers on American matters.

I can document that by the early twentieth century all the leading British merchant banks, many German private banks and all the giant German banks, the principal Dutch banking houses, and many of the French banks handled American securities. Yet, when in 1911, for the first time, a New York state banking law required that agencies of foreign banks be licensed by the New York Superintendent of Banks (who had to be satisfied that the foreign banks had financial standing such that they "may be safely permitted to conduct business" within the state), none of these banks went the "licensed agency" route.

Before the outbreak of World War I, twenty foreign (that is, out-of-country) banks did have licensed agencies in New York, but none of these was important as an intermediary, bringing long-term foreign capital into the United States. Practically all participated in America's foreign trade financing. The list included ten banks with London headquarters, one of which (the Bank of British North America) operated in Canada. The London group included the so-called "Foreign and Colonial Banks," British banks engaged in financing trade with Africa, Latin America, and Asia. The list had five banks with Canadian addresses, the most important of which was the Bank of Montreal. The remaining five New York agencies were banks headquartered in Hong Kong (the Hongkong and Shanghai Banking Corporation); Naples and Prague (Banco di Napoli and the Bohemia Joint Stock Bank -- both undoubtedly associated with sending home immigrants' remittances); Yokohama (the Yokohama Specie Bank); and Havana. The Havana bank -- the National Bank of Cuba -- seems to have been US-owned before World War I.

If it was remarkable that none of the British merchant banks, German banks, Dutch banks, or French banks that dealt in American securities had licensed agencies in New York in 1914; it is equally remarkable that with the exception of the Hong Kong

and Shanghai Banking Corporation, none of the world's ten greatest banks of deposit was on the list.

In my paper for the Bellagio conference, I will indicate why this was the case and go further to explain how restrictive New York State legislation barred branch banks of the big British commercial banks, some of which otherwise would have (according to evidence I have uncovered) set up branches in New York City. Furthermore, I plan to deal with the small impact on US domestic banking of foreign banks and try to explain why the impact was so minimal.

In sum, while foreign banks did play an important role in intermediating long-term capital into America, in the main, to carry on this function, they did not require a large-scale presence in the United States. Nonetheless, some had representatives, agents (not licensed ones), and even banking houses in New York. In the years in 1870-1914, foreign banks engaged in information gathering, foreign trade financing, handling foreign exchange, and shipping specie. There were also foreign banks that did regular banking business, taking deposits, and making domestic loans (Bank of Montreal in Chicago, for example).

In my paper for the Bellagio conference (which unlike this one will document my information), I plan to consider in more detail foreign banks and foreign investment and discuss the varieties of banking entries onto American soil, that is, the bank itself as multinational enterprise.

REFERENCE

1. Mira Wilkins, *A History of Foreign Investment in the United States*, forthcoming book.

THE JACKSONIAN WAR REVISITED

