

## CHAPTER EIGHT

# THE CHANGING IDEAS ABOUT VALUATION MECHANISMS IN THE INTERWAR PERIOD: TOEPLITZ, MARLIO AND THE 'GREAT TRANSFORMATION'<sup>1</sup>

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Many analysts of markets see in prices a mechanism of coordination between buyers and sellers of goods. Neoclassical economists believe that for market coordination to be efficient, prices have to freely fluctuate (Officer 2014). But not all agree that markets work efficiently when prices are freely floated. Sociologists have demonstrated that the valuation of goods in markets is not always free from administrative or social imperatives, nor that it should be (Callon et al. 2007; Callon, 1998). On the contrary, many alternative valuation devices work more efficiently than the determination of prices based on comparisons between quantities of goods demanded and supplied. Famous sociologists like Karl Polanyi warned their contemporaries that this was even truer when markets became global. According to Polanyi, in the second part of the nineteenth century it was the *Haute Finance* that assured the good operation of markets on a world scale. The author, in a book highly critical of the opaque idea of self-regulating markets, imagined the global markets of the late nineteenth centuries as loosely regulated by what he defined a “powerful social” instrument, flexible and very effective, which was able to remain “independent of single governments, [but] in touch with all; independent of the central banks, even of the Bank of England, [but] closely connected with them” (Polanyi 1944: 10). During normal economic times, the *Haute Finance* provided a loose form of

<sup>1</sup> The authors contributed to the writing of this chapter in an equal way. Marco Bertilorenzi wrote sections 3 and 4, while Giuseppe Telesca is the author of sections 1 and 2; introduction and conclusion were written together.

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coordination, reinforced by the tight sociability of elite bankers (the *entre-soi* that Bourdieu talks about), which allowed markets to operate quite efficiently even when crises associated with the making of global markets emerged, as in the case of Baring's bail-out in 1890 for instance (Ford 1956; Mitchener and Weidenmier 2008; Cassis 2011:9–13).

It has been correctly pointed out that Polanyi's idea about the *Haute Finance* is postulated rather than demonstrated. Polanyi, for instance, does not offer any insights on the mechanism through which the *Haute Finance* managed to grant “the hundred years' peace” to the world – a research question that has fascinated economists working on the theory of group and organization (Olson 1965), political scientists working in the field of international relations (Kirshner 2007; Tomz 2007), and economic historians (Flores and Flandreau 2012). Polanyi does not explain either the structure or the composition of the *Haute Finance*, limiting himself to mention the House of Rothschild as the pillar of this “mysterious institution.” In spite of this vagueness, one of the main heuristic insights of Polanyi's book is that markets' self-regulation is an historical construction and not a natural fact. The real breakthrough of Polanyi was to consider the creation of a *laissez-faire* economy as the outcome of deep interventions by governments, and its continuation as a real commitment by economic and financial elites. Polanyi was struck by a paradox of the liberal economic thought that, from the enclosures onwards, had consistently failed to recognize that “the introduction of free markets, far from doing away with the need of control, regulation, and intervention, enormously increased their range. [...] This paradox was topped by another. While *laissez-faire* economy was the product of deliberate state action, subsequent restrictions on *laissez-faire* started in a spontaneous way. *Laissez-faire* was planned; planning was not” (Polanyi 1944, 140–141). If the affirmation of the liberal economy was led by the *Haute Finance* in the nineteenth century, the commitment of financial and industrial elites was decisive in the attempt of “recasting bourgeois Europe” after the shock of the Great War (Maier 1975). The financial dogma to stabilize currencies, which spread throughout the 1920s and captured the energy of governments, central banks and new intergovernmental agencies, was highly engaging for private bankers committed to this economic paradigm. Likewise, the return to pre-war free trade, advocated by national and international public powers as a medium/long term goal of the international polity after the Treaty of Versailles, became an explicit commitment for the industrial elites.

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Like Polanyi, we are interested in the question of valuation in global markets. Also like Polanyi, we are interested in the shattering effects of the Great War on the forms of market coordination that were held legitimate before the conflict. For this reason, we investigate the transition from the late nineteenth century forms of regulation of these global markets to the interwar period, with the goal of providing a better understanding of the mechanisms that affect the legitimacy of various valuation devices over time.

This scrutiny provides insights into the process of valuation: while advocating the free market and market self-regulation as crucial for the creation of value in their business, financial and business elites created more or less informal coordination tools that, deeply altering the free market process, ended up becoming the new devices presiding over the process of valuation of both financial products and commodities. In some cases, this movement produced even paradoxical ideas: for instance that financial speculation could help the currency stabilization or that cartels could help the settlement of free trade (Hara 1994; Barjot 1994, 2013). In this paper, we ask: after the First World War (WWI), what happened to the informal mode of regulation which had allowed prices to be sustained artificially when markets failed and prices plummeted? Did the legitimacy of this informal mode of regulation resist the sweeping changes introduced in the economy by its total mobilization for the war effort?

To answer these questions, we adopt a Bourdieuan approach to the sociology of valuation devices, based on methods that are close the prosopographic approaches of elites. Among the groups that we identify as having a key influence on the choice of valuation devices during the transition that interests us, we focus on the *Haute Finance* and the elite industrialists. We identify both groups as strong supporters of the idea of self-regulation of markets, a concept which was understood very differently from today. Far from meaning that prices should never be the object of interventions by powerful market actors, this idea of self-regulation meant that some interventions on prices were legitimate when conducted by powerful private global forces (cartels of producers for instance) while others (conducted by the state in particular) were not. Central in this question of legitimacy of pricing techniques was the boundary drawn between social groups, as the sociology of valuation and boundary-making tells us (Lamont 2012).

Section one and two of this paper deal with a case study in the world of high banking to illustrate the pre-war financial elites' initial

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resilience, and then adaptation, to the transformations in the forms of regulation of global markets after WWI. These sections are centered around the figure of Józef Leopold Toeplitz (1866–1938), the *Banca Commerciale Italiana* (BCI's) executive director from 1915 to 1933. Founded in Milan in 1894, within a few decades the BCI became the Italian universal bank prototype and the most important bank in the country.<sup>2</sup> The third and fourth sections look at Louis Marlio (1878–1952), executive director of *Pechiney*, the French aluminum champion of which he became president in 1939.

Building on Pierre Bourdieu's theory of human capital, the first section explores Toeplitz's "set of the usable resources and powers" acquired before WWI – an endowment probably inadequate to deal with the challenges spawned by the 'Great Transformation'. However, Bourdieu's observation that individuals can convert one type of capital into another, and hence modify the volume and distribution of their assets over time, offers a possible explanation for Toeplitz's post-war resilience (Bourdieu 2010:119–126). Generalizing Toeplitz's experience, one can assume that, even though, in the face of the interwar financial disturbances, the loose and informal regulation of markets of the late nineteenth century was no longer efficient, older bankers still abided by the old

In section two we will see this in relation to Toeplitz and the currency market during the 1920s. The third and fourth sections show, starting from the example of Marlio, how industrialists confronted with a deep economic crisis innovated by formalizing new rules of valuation. In particular, it explores the way in which Marlio, one of the main representatives of the industrial elite who participated in the process of legitimation of cartels, interacted with a new group of technocrats within newborn international organizations such as the International Chamber of Commerce (ICC) and the League of Nations (LoN). These institutions and their forbearers made clear their intention to both come back to economic orthodoxy and free trade, and ease the re-integration of the markets after the shock of the war. As these sections demonstrate, the perception of cartels changed during the interwar years, as they moved from being seen as institutions of international economic self-regulation during the 1920s, to being perceived as instruments

<sup>2</sup> In 1929, the BCI's total assets were equal to 10,358 million lire, compared with the 6,748 of the *Credito Italiano*. In continental Europe, only the *Deutsche Bank* (with 13,669 million) and the *Darmstädter* (10,721 million) fared better than the BCI (Confalonieri 1994: 245).

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which governments supported, endorsed, or even controlled during the 1930s.

THE TRAJECTORY OF JÓZEF TOEPLITZ: A PRIVILEGED SON OF THE FIRST GLOBALIZATION

Toeplitz was born in Zychlin, near Warsaw, on 10 December 1866. Fifth of eleven children, he was part of an influential Polish-Jewish family with interests in agriculture, trade and banking. Since a Polish national state did not exist in 1866, Toeplitz acquired Russian nationality. The wealthy status of his family gave him the opportunity to enjoy a cosmopolitan education in Mitau, Gand and Aachen. Although he did not finalize his master's in engineering, the experience gained abroad during these years would prove crucial for his career (Telesca 2010:19–21).

In 1890, Toeplitz moved to Genoa with the aim of learning the banking profession by exploiting both his qualities and his family ties with the then director of the *Banca Generale* (BG) Genoa subsidiary, Otto Joel.<sup>3</sup> A few years later, in 1893–1894, the Italian banks went through difficulties both due to internal factors, their tendency to over-invest in real estate assets, and external shocks – a typical episode of capital outflows from periphery to core countries (De Cecco 1990:22–23). This turmoil led to the salvaging of one of the then existing issuing institutes, the *Banca Romana*, and the collapse of the two biggest banks inspired by the Péréire brothers' model, the *Credito Mobiliare* and the BG (Quilici 1935; Pantaleoni 1977). A momentous change in the Italian banking system ensued, and was built on a reorganization of the issuing institutes and the founding of universal banks inspired by the German model.<sup>4</sup> Joel, who was general inspector at the BG when it collapsed, played a crucial role in the months that preceded the founding of the BCI (October 1894) and, together with his German colleague Friedrich Weil, he was appointed as a BCI executive director (Garruccio 2002).

After a brief adventure as director at the newly established Genoa subsidiary of the *Banca Russa* (BR) – a choice prompted by a desire to

<sup>3</sup> Toeplitz's uncle, Benedikt, was married to Joel's aunt, Friederike.

<sup>4</sup> In August 1892 the *Banca Nazionale del Regno*, the *Banca Toscana di Credito* and the *Banca Nazionale Toscana* merged into the *Banca d'Italia*. The law provided for the newly established bank a prominent status with respect to the already existing issuing institutes: *Banco di Napoli* and *Banco di Sicilia* (Bonelli and Cerrito 2003: 103–106).

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move closer to Poland, the BR headquarters being located in St Petersburg – in June 1895, Toeplitz joined his mentor at the BCI (Toeplitz 1963:32–33). The move to Milan inaugurated Toeplitz's slow ascent to the BCI's summit. Initially, the banker flanked Joel in a series of minor affairs and merchant banking activities (Confalonieri 1979:339–349). Afterwards, Toeplitz was entrusted with the opening of two crucial subsidiaries in Naples and Venice, making him a key protagonist of the BCI's territorial expansion through the country. In Naples, he built up crucial relationships, among others with Giuseppe Volpi and Dannie Heineman, which we will return to later. Toeplitz's return to Milan in 1903 resulted in a growing involvement in the BCI's industrial business and marked a further step toward top-tier positions. On the one hand, he was appointed fiduciary on the boards of an increasing number of BCI's client firms (in 1930 Toeplitz was member of forty-five boards of directors in both firms and banks);<sup>5</sup> on the other hand, when a consortium of banks headed by the Bank of Italy (BoI) saved the *Società Bancaria Italiana* (SBI) from bankruptcy in 1907, Toeplitz was entrusted with scrutinizing the SBI's balance sheets on behalf of the BCI. When the BCI's governance reform eventually materialized – establishing a functional separation between the headquarters and the Milan offices – Toeplitz was called to the helm of the branch and subsidiary inspection services, thus attaining the crucial role of coordinating between the bank's centre and its periphery. This took place in November 1907, and Toeplitz's ascent indicated a future succession to his mentor. During his apprenticeship at the BCI, Toeplitz had learned how to perform the four roles that, according to information economics, characterize financial intermediaries: monitoring, coordination, control and commitment (Bhattacharya and Thakor 1993).

Before WWI, Italian bankers' practical knowledge was not framed in any theoretical scheme, nor was such a pattern uncommon in other countries, except for France, where the education of bankers was a more formalized process (Cassis 1991:67–68). A move in the 1890s from the *Crédit Mobilier* to the *Kreditbanken* model, combined with a shift from unit to branch banking, induced the newly established Italian banks to look for a set of skills that academia was still unable to supply. To fill this gap, the new banking elite was partly recruited from abroad, and partly selected among Italian bankers whose know-how was obtained

<sup>5</sup> Archivio Storico Intesa-Sanpaolo (hereafter ASI-BCI), Database fiduciari Banca Commerciale Italiana in progress.

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on the job (Piluso 1998). The considerable number of foreign directors and managers at the BCI can be justified on this ground, rather than relying on the nationalists' mystifications against the "German banks". The foreign bankers granted to the Italian universal banks a competitive advantage consisting of the transfer of financial technology, networks and information (Goldshmit 1969:363).

Toeplitz, who had become an Italian citizen in January 1912,<sup>6</sup> succeeded *de facto* to Joel at the helm of the BCI in spring 1915, amid the trouble instigated by the Italian intervention in WWI and a hidden struggle for control of the BCI (Montanari 1995:23). His leadership, together with the Italian Fenoglio, became official only in March 1917.<sup>7</sup> Three years later when Fenoglio resigned, Toeplitz became "the boss" of the BCI.<sup>8</sup> He remained at the helm of the bank until March 1933, when he was obliged to resign.<sup>9</sup> Afterwards, Toeplitz served another year as deputy President of the board, before abandoning the BCI and the scene of the Italian economy. In 1938, following Benito Mussolini's order to give no relevance to the news of his death, only obituaries in the national newspapers briefly acknowledged the end of a banker who, *The New York Times* emphatically recalled, once had "his finger on the pulse of three-quarters of the nation's largest firms."<sup>10</sup>

Bourdieu explains that a similar quantity of cultural capital produces a different yield according to the social agent's possibility of mobilizing a network of more or less institutionalized relations. Toeplitz's cultural capital – already above the average because of his cosmopolitan education – was strengthened by the "multiplier effect" of his prestigious social capital (Bourdieu 1980). It has already been mentioned that he was Joel's cousin; it must also be specified that his father, Bonawentura, was a correspondent of the Rothschild Frankfurt branch and his uncle, Henryk, was among the founders of the most important commercial bank in Warsaw, the Bank Handlowy (Toeplitz 2004:363–368). In other words, Toeplitz's family was part of the "*comédie financière*" that, "from the titans of the City or the *Chaussée d'Antin*, to their trusted correspondents in the great ports and entrepôt, to small local bankers

<sup>6</sup> Archivio di Stato di Milano, Gabinetto Prefettura I, 532, Ufficio di Stato Civile di Milano, 1 February 1912.

<sup>7</sup> ASI-BCI, Verbali Consiglio di Amministrazione (hereafter VCA), 27 March 1917.

<sup>8</sup> *Il padrone* was the epithet which designated Toeplitz among his inner circle of collaborators (Malagodi 1999: 73).

<sup>9</sup> ASI-BCI, Verbali Assemblea Generale, vol. IV, ff. 68–69, 25 March 1933.

<sup>10</sup> "Giuseppe Toeplitz, Financier, is Dead," *The New York Times*, 30 January 1938.

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in manufacturing centers and agricultural markets,” distinguished the different tiers of the *Haute Finance* (Landes 1958:16). Toeplitz’s status was not comparable, either in terms of social prestige or in terms of political influence, with that of the “aristocratic bourgeoisie” which had dominated international finance before 1914 (Harris and Thane 1984; Cassis 1994), however, by means of his origin and education, his position and functions within the BCI, and the ties built with the Italian business community and abroad, Toeplitz had a significant amount of human capital at his disposal from which most of his colleagues were precluded.

Bourdieu’s human capital can be seen as the “aces in a game of cards” that define the chances of an individual of “profiting in a particular field” (Bourdieu 1985:724). Some individuals have better chances of being prominent in a certain field because they are endowed with more capital than others – this was the case of Toeplitz before WWI. An individual’s process of capital formation, however, is a dynamic one that can experience both accumulation and erosion. After WWI, the bankers of Toeplitz’s generation were confronted with an erosion of their capital, namely the cultural one acquired on-the-job training and inadequate to deal with the completely new scenario. The stabilization of the currencies during the 1920s, analyzed in the next section, exemplifies this process of loss. This case study can be seen as a sort of natural experiment to test a broader reality, which, during the interwar years, confronted a generation of top-league bankers obliged to adjust to the new climate.

#### TOEPLITZ’S CAREER DURING THE INTERWAR YEARS: A PAINFUL PROCESS OF APPRENTICESHIP

After WWI, returning to the same path of the *belle époque*’s economic growth by simply imitating the pre-war recipes proved to be damaging. In particular, the persistence of a gold standard *mentalité* became the symbol of the stubborn resolution with which the post-war imbalances were treated. The commitment to gold convertibility, rather than to domestic fundamentals such as employment and growth, far from unraveling the problems, added new obstacles to their solution (Eichengreen 1992; Eichengreen and Temin 2000). The “erratic and perverse” behavior of capital movements did the rest (Bloomfield 1950).

A few nonconformist economists and publicists dared to indicate a different way out of the crisis. Inspired by the success of Keynes’ *The*



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*Economic Consequences of the Peace* (1919), this group of intellectuals deployed a remarkable activism in promoting appeals, conferences and other initiatives. If the unorthodox stances of these iconoclasts rendered them “*persona non grata* in orthodox banking circles during the 1920s” (Schuker 2003:65–66), their proposals received a good deal of attention both within international organizations such as the LoN and the ICC, and in the specialized press. In November 1921, for instance, the *Rivista Bancaria* (RB) – founded one year before under the auspices of the newly established Italian banking association – published Gustav Cassel’s report on currency stabilization, presented at the LoN Financial Committee in September 1921. The document invited, *inter alia*, to ignore the pre-war parity of currencies in order to escape the deflationary effects of a painful adjustment. Cassel suggested the adoption of some form of managed currency stabilization, a solution which would have implied the direct intervention of the governments (Cassel 1921).

Commenting on Cassel’s report, the director of the RB, Attilio Cabiati, included in his article the anonymous opinions of two prominent Italian bankers. As emerges from the BCI’s archives, Toeplitz was one of them.<sup>11</sup> In his contribution, the banker dismissed Cassel’s ideas as “utopias” destined to thrill “the large public” but which fell short in the eyes of both rational scholars and wise practitioners. Toeplitz defined “harmful” and “artificial” Cassel’s plan, adding sarcastically that its “only positive aspect consisted in the difficulty to turn it into practice.” Only the reliance on “old formulas” and “permanent principles” could have produced the conditions for a real economic recovery according to the banker, who assigned a crucial role to the speculation which “cooperated to the balance of payment’s equilibrium of the countries, namely the ones with a weak currency” (Cabiati 1921:597–598).

Toeplitz’s enthusiasm for speculation can be understood not only in light of his mindset firmly grounded in the *laissez-faire* era, but also if one considers the remarkable profits realized by the BCI in currency arbitrations during that period.<sup>12</sup> Having outlined Toeplitz’s initial perspective, two attempts of currency stabilization in which the BCI played a significant role – the Polish loan (1924) and the maneuvers for the stabilization of the Italian lira (1925–1926) – will provide the base for

<sup>11</sup> Toeplitz sent a letter to Cabiati which was partially reproduced in the article (ASI-BCI, Copialelettere Toeplitz (hereafter CpT) 17, ff. 1–3).

<sup>12</sup> In 1925, faced with the first signs of a deflationary twist, Toeplitz told his board of directors that the new governmental policy would mean less profits in currency arbitrations, a situation that everyone had to “peacefully accept” (ASI-BCI, VCA, 30 June 1925).

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exploring Toeplitz's difficult process of adaptation to the new reality during the 1920s.

The appointment of Wladyslaw Grabski as prime minister, in December 1923, created the conditions for the launch of a BCI Polish loan. Grabski, convinced that Poland was able to stabilize the currency without being obliged to endure the severe prescriptions of the LoN, at the beginning of 1924 established a central bank independent of the government (Bank Polski) and withdrew the worthless Polish mark, replacing it with the *zloty*. Grabski's maneuver, consisting of introducing a new currency without previously balancing the budget, was built on Poland's capacity to negotiate a series of piecemeal loans, which were less costly in political terms (Pease 1986:22–25). The BCI was the first bank to buy into this strategy, with the offer of a 400 million lire loan for twenty years at 7 per cent.<sup>13</sup> The negotiations ended in March 1924 and the loan was floated in two tranches: three hundred million lire were offered on 18 April and the remaining hundred million by the end of October. The loan, officially devoted to the constitution of the Polish tobacco monopoly and the modernization of the sector, established that 60 percent of the imported tobacco should come from Italy. Its alleged commercial purpose, however, did not remove the risk that the loan could be used – and was used, indeed – to buy foreign reserves, in the case of difficulties of the *zloty* (Asso 1993:123–142). This risk was stressed upon by the Director of the BoI, Bonaldo Stringher – unaware of the negotiations and finding himself faced by a *fait accompli* – in an irritable letter to the then Finance Minister Alberto De Stefani, on 8 March 1924 (De Cecco 1993:755).

Toeplitz saw in the Polish loan the first of a series of ambitious stabilization loans led by the BCI in Eastern Europe. Well aware of the risks connected to the loan, however, he had conditioned the conclusion of the negotiations on an Italian government assurance of intervening in the case of war and replacing the Polish government in the payment of the interest.<sup>14</sup> Surprised by such an atypical axis between the government and the BCI, not always on good terms, the American

<sup>13</sup> With the lira floating around quota twenty-three against the dollar, the loan was worth more than seventeen million dollars.

<sup>14</sup> The performance of the BCI Polish loan, despite the success of the placement of the first *tranche* (with a demand ten times greater than the supply), faded when the weakening of the *zloty* and the failure of Grabski's political attempt urged the Polish government to use the Italian currency to defend the Polish currency. At the end of 1931, the BCI portfolio was still engulfed with seventy million lire of the 1924 Polish loan (Asso 1993: 331–335).

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ambassador in Rome wrote to his secretary of state that Toeplitz had obtained Mussolini's guarantee on the Polish loan in return for BCI support in the impending elections of April 1924 (De Cecco 1993:755–756). The reality is simpler than that. We have seen how bankers of Toeplitz's generation saw currency stabilization as a process to be worked out by private capital markets rather than by (and through) the LoN. Moreover, since the Polish loan was functional to Mussolini's political interests, Toeplitz's pragmatic strategy was to take advantage of his influence in his motherland to negotiate a loan meant to strengthen his frail relations with the *Duce* and lessen the authority of the Italian central bank.

Apart from personal divergences, which are not surprising if one considers the *milieu* from which they came, there were objective reasons for the Stringher-Toeplitz conflict. Stringher had been general director of the Treasury before running the BoI. A convinced nationalist, at the beginning of the 1920s Stringher understood his role as central banker in a different way to that set out at the 1922 Genoa international monetary conference (James 2001:33–34). By mid 1920s, however, the wave of stabilization programs related to international cooperation schemes to which the BoI had been called to take part, and the moral suasion of Montagu Norman (governor of the Bank of England) and Benjamin Strong (governor of the New York Fed), had the effect of slowly converting Stringher to the doctrine of central banking.<sup>15</sup>

The BCI Polish loan was at odds with the enforcement of central banks international cooperation supported by Norman. It was considered a premature move also by private bankers such as Russel Leffingwell of the House of Morgan which, in 1923, had rebuffed an attempt by the Polish government to negotiate a small loan. While the English central banker refused the logic of Toeplitz's artificial stabilization of the *zloty*, the American private banker was concerned by the depressing outlook of the Polish economy, worsened by the geopolitical fragility of the country and the unsolved problem of its war debts towards the United States. In the wake of the BCI, in February 1925 the American bank Dillon, Read and Co. negotiated another unsuccessful loan with

<sup>15</sup> That the process was far from being concluded is confirmed by an editorial of *The Banker*. In assessing the functioning, power and independence of different central banks around the world, the prestigious review considered the central banks of France and Belgium as "more or less willing instrument of weak financial Governments." The BoI was considered in the same terms, even though, the editorial added, "to a lesser extent" ("A Survey of World Banking," *The Banker*, June 1926: 443–448).

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Poland that “far from furnishing Poland with her coveted breakthrough loan, . . . stigmatized the Polish state in the eyes of financial community” (Pease 1986:39). It was only after the coup d’état staged by Józef Piłsudski in May 1926, that an improved economic situation stimulated a growing inflow of foreign capital (Landau and Tomaszewski 1990: 275). In this climate, the American bank Blair and Co., through the intermediation of its French subsidiary led by Jean Monnet, negotiated with the Polish government a stabilization loan that presented more than a similarity with the BCI loan. In a context of declining mutual trust between central banks, the Polish loan became another source of tension between the Bank of England, the Banque de France and the Federal reserve of New York (Meyer 1970).

From an internal perspective, the 1924 Polish loan exposed dramatically the BoI and BCI’s contrasting opinions about the hierarchy within the Italian banking system. In Stringher’s view, the BoI, as systemic “bank of the banks,” was called on to manage the reserves which, together with savings, represented the measure of liquidity. Toeplitz considered the BoI a mere “bank among banks.” In his scheme, the universal banks “created” money and the central bank had to provide lending of last resort in cases of liquidity shortage (Piluso 2011). This actually happened in June 1925, when the BCI underwent serious liquidity difficulties due to a massive withdrawal of foreign deposits, and the BoI was forced to inject liquidity to the tune of 30 percent of the bank’s total fund raising (Toniolo 2003: 325). In July 1925 Volpi replaced De Stefani as Minister of Finance. The move was likely due to the mounting hostility of the business community against De Stefani – namely against his controversial decree to curb the exuberance of stock markets (February 1925) that, coupled with the increase in the discount rate from 5.5 to 6 percent, triggered a bourse collapse which anticipated the 1926 deflationary turnaround (Baia Curioni 1995:330–342).

The entry of Volpi in the control room of the Italian economy represented good news for Toeplitz and the BCI. The Count of Misurata, the city in Libya where Volpi had resided as Governor of Tripolitania, had maintained an excellent relationship with Toeplitz after meeting him in Naples at the end of the century (see section one). In particular, the arrival of Volpi provided a competitive edge to Toeplitz against Stringher when, between August 1925 and May 1926, the control of the Italian currency passed into the hands of Volpi at the expense of the BoI. In an endeavor to strengthen the lira, Volpi sought the help of the BCI, which had already received authorization to intervene in

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matters regarding the currency in June 1925 and could put at the disposal of the minister its inestimable treasure of know-how and information. During the 1920s, the BCI was the Italian bank with the most sophisticated multinational network (D'Alessandro 1998; Di Quirico 1999; Piluso and Toninelli 2002). The London and New York branches, opened respectively in 1911 and 1918, represented a key tool for Volpi to defeat speculation. In a context of mounting instability, the BCI could play a key role in organizing the defense of the lira through reducing the asymmetry of information. For this reason, immediately after his appointment Volpi asked Toeplitz to keep him posted “on a daily basis,” about any significant movements related to the currency market.<sup>16</sup> The maneuver, based on a document produced by the BCI in May 1925, envisaged a shift in the defense of the lira from the spot to the forward markets.<sup>17</sup> Yet, the most remarkable feature of the combined action of Toeplitz and Volpi in defense of the lira was that it entailed a large use of speculation in order to beat private investors on their own ground.

Volpi's aim was to get the course of the lira under control before discussing the inter-ally debt agreements with the United States and the United Kingdom (Romano 1979:131–141). The containment of inflation through a capping of salaries, and the possibility of getting credit from abroad, following agreements reached with the United States (November 1925) and the United Kingdom (January 1926) on the repayment of the inter-ally debts, represented the ingredients of the successful currency management carried out by Toeplitz and Volpi until spring 1926. Subsequently, the lira, which had remained for a while in the region of 120 against the British pound, lost 18 percent of its value between April and August. This deterioration pointed to the necessity of stabilizing “twin currencies” such as the French and Belgian franc, strictly linked to the lira and the Italian economy. Moreover, it urged Mussolini – pressed by the international financial community – to give a new governance to the currency.

The Polish loan and the facts of 1925–1926 had reinvigorated Stringher's determination to defend the Bol's autonomy, not only against the government, but also against the claims of the commercial banking system. In this process Stringher became, in the eyes of Strong,

<sup>16</sup> ASI-BCI, Segreteria Toeplitz (hereafter ST) 82, fasc. 5, Baracchi's letter to Toeplitz, 13 July 1925. Toeplitz did inform Volpi on a regular basis about movements on the currency market (ASI-BCI, ST 82, Toeplitz' letters to Volpi, 1, 8 and 13 August 1925).

<sup>17</sup> The document of 26 May 1925, entitled “Mutamenti nelle tendenze del mercato dei cambi e causa della mancanza di divise estere in Italia,” is in De Cecco 1993: 940–943.

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“a thoroughgoing central banker,” able to “talk the language in orthodox style.”<sup>18</sup> Meeting the Duce in May 1926, Strong was adamant about the fact that a stabilization plan could not disregard Stringher and the BoI, which had to be the pivot of the maneuver (De Cecco 1993:64–67). Mussolini’s speech in Pesaro, on 18 August 1926, sent a strong signal to the international markets and launched a dramatic appreciation of the lira. While Mussolini was launching his “battle for *quota 90*,” a series of reforms related to the stabilization of the lira and the adoption of the gold standard were implemented. In July 1926 a Royal Decree granted the BoI the monopoly of note issuing. In September 1926 a law was passed for the protection of savings conferred to the BoI supervisory powers on the Italian banking system (Conti 2008:435–437). The lira was eventually stabilized at 92.46 sterling in December 1927. Toeplitz was obliged to cheer Mussolini when *quota 90* was achieved.<sup>19</sup> In the months which preceded the stabilization, however, he did not conceal his frustration with the monetary policy pursued by the regime. The critiques were directed not against the stabilization *per se*, but against the level of the lira’s appreciation.<sup>20</sup> While the strategic defeat of Toeplitz was taking place, Stringher could proudly write to his “colleagues” Norman and Strong that the BoI had “enter[ed] into absolute possession of the reserves” and had “assume[d] the responsibility of maintaining the gold value of the lira.”<sup>21</sup>

Did the events of the mid 1920s affect Toeplitz’s original beliefs on currency stabilization? A letter of the Polish-born banker provides an enlightening answer to this question. The letter, written in February 1931, was addressed to his old friend, the engineer and industrialist Heineman, who he met in Naples at the end of the nineteenth century (see section one). During the 1920s this cosmopolitan businessman, at the helm of the electrical multinational holding *Société financière de transports et d’entreprises industrielles* (Sofina), had been among the main supporters of Pan-Europa, the movement founded by Richard de Coudenhove-Kalergi. In the second part of the decade, he had argued for an international cartel of electricity producers and distributors. In

<sup>18</sup> [Strong to Harrison, May 1926].

<sup>19</sup> This achievement, in the affected wording of the banker “represented the basis for a steady and effective development of the Italian economy and the banking system” (See ASI-BCI, CpT 57, f. 19, telegram to Mussolini, 22 December 1927).

<sup>20</sup> A large part of the Italian business community considered *quota 120* the threshold below which the appreciation of the lira could harm the Italian economy (Baffi 1973: 115).

<sup>21</sup> [December 1927].

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November 1930, Heineman was invited to Cologne by the then burgo-master Konrad Adenauer to give a talk on the future of Europe. On that occasion he presented the idea of a European federation – a plea which inspired similar events in Barcelona and Paris. Heineman’s speeches were published in a pamphlet in English, French and German (Ranieri 2005:334–335). In *Outline of a New Europe*, Heineman built on the idea elaborated by the German engineer Oskar Oliven for a European electric network intended to create a bridge between the industrialized western Europe and the agricultural eastern Europe (Schot and Legendijk 2008:207–201). To overcome the dualism between what Heineman defined as the “horse-power Europe A” and the “draught-horse Europe B,” and to overcome the crisis in which it was engulfed, Europe had to find inspiration from the United States, and build its reconstruction on three pillars: one technical, the already mentioned electric network; one administrative, the removal of administrative barriers to trade; one financial, the free circulation of capitals (Heineman 1931).

Toeplitz received the French version of the pamphlet (*Esquisse d’une Europe nouvelle*) and wrote a long letter to his friend which contained a good deal of skepticism toward Heineman’s ideas. Toeplitz conceded that in Europe there were twenty-seven countries whose borders represented an obstacle to business, but he invited his friend to consider that there were also about thirty different languages and seven religions to take into account, together with the strength of traditions and affinities that, in spite of Heineman’s dreams, “paraît être plutôt en train de s’accroître que de diminuer.” According to Toeplitz, Heineman’s new Europe could work as a federation of engineers, but not as a federation of bankers. The bankers, as long as depositors give them not a single currency but “des lires, des livres, des francs ou des florins, symbols de particularismes nationaux,” would always stand “plus ou moins du côté des politiciens.”<sup>22</sup>

This prescient letter was written in 1931. While in September, the gold exchange standard revealed the contradiction at the very core of the system, when the British Pound was obliged to abandon its ill-conceived parity, during the same year a systemic banking crisis involved several European countries: Austria, Germany, Hungary and Italy. In particular, the Credit-Anstalt’s collapse, which triggered the trouble in May, marked the *nadir* of financial globalization, as Baring’s

<sup>22</sup> Cfr. ASI-BCI, CpT 71, ff. 432–435, letter to Heinemann, 2 February 1931.

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salvage had epitomized its zenith. Established by the Rothschilds during the middle of the 1850s, the glorious Viennese bank, chaired by Louis Von Rothschild, since the moment of its foundation “stood in the forefront of international finance” (Schubert 1991:11). With the solidarity within the international banking community weakened after WWI, as exemplified by the figures on the collapse of foreign bankers sitting in the board of directors of other countries’ banks, the Credit-Anstalt’s crisis proved that bankers could no longer save banks through informal late-night meetings in the secluded world of London clubs: new forms of regulation and valuation techniques were badly needed. The bankers, as Toeplitz bitterly acknowledged, had to sit on the side of politicians – a rather surprising change of perspective for a banker that, in 1916, had declared to the British ambassador in Rome that he did not believe in “political banks,” and that banks “should confine [themselves] to business affair.”<sup>23</sup>

#### LOUIS MARLIO. THE ACCUMULATION OF A HUGE HUMAN CAPITAL UNTIL THE GREAT WAR

Born on 3 February 1878, Marlio came from a relatively wealthy Parisian family which, however was not part of the French elite. His father studied law and was an official auctioneer (*commissaire priseur*) of the art and antiquities district of Paris, around *rue Drouot*, where the family lived until the death of Marlio’s mother, in 1890. Marlio’s social promotion passed through a successful education and then – as in the case of Toeplitz – by the Bourdieuan “multiplier effect” of his conspicuous social capital. When he was twenty years old, Marlio won the public competition to enter the *Ecole Polytechnique*, the leading French engineering school that formed a large part of the French administration and business elites. Marlio’s classmates were, *inter alia*, the future car industrialist André Citroen and the pioneer of well logging industry Conrad Schlumberger (Pose 1955). According to the informal rules that governed the carriers of the graduates from the *Ecole Polytechnique*, the first ten of them usually continued their education at the *Ecole des Mines de Paris*, in order to enter in the *Grand Corp* of state engineers of mines, also known as X-Mines. The former *Polytechnique* students

<sup>23</sup> National Archives, Foreign Office, 368/1540, memorandum of James Rennell Rodd to the Foreign Minister Edward Gray, 1 June 1916.



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ranking from the eleventh to the twentieth position were instead destined to the *Ecole des Ponts et Chaussées*, to then become members of the *Grand Corps* of state engineers of bridges, also known as X-Ponts (Joly 2013). Marlio ranked sixteenth and, following the classic *excursus honorum* of his education, became an X-Pont and passed through the different echelons of this administrative body from 1904 to 1910.<sup>24</sup>

At *Ponts et Chaussées*, Marlio became a disciple of the famous liberal economist Clement Colson, he too a former X-Ponts, who merged the classical liberalism of Jean-Baptiste Say with the marginalist approach of Léon Walras. Colson was a fine expert of the pricing of services under monopolies, such as railways and transports (Picory 1989; Le Van-Le Mesle 2005). This encounter not only crafted the political views of Marlio in the field of liberal economy; it also shaped the early career and the first orientation of the future *Grand Patron*. Actually, Marlio focused his main scientific interests into railways and waterways – the main interest of Colson as a scholar and state engineer. After his graduation at *Ponts et Chaussées*, Marlio undertook, like Colson, a further specialization in law (Pose 1955; Morsel 1987). He obtained a PhD in 1907 with a thesis dedicated to German policy of national water transportations, which was published a year later (Marlio 1908), and which he completed following a series of field trips he made to Germany as a state engineer.<sup>25</sup> After his PhD, he achieved an impressive career in the administration. In 1909 he served as *Chef du Cabinet Technique* of the Minister of Public Works Alexandre Millerand – a future President of the Republic during the 1920s. In 1910, when he was only thirty-two, he won the competition to become *Conseiller de Requête* (counsel) at the Council of State, one of the highest positions that a young officer could achieve within the French administration (Pose 1955; Morsel 1987; Hachez-Leroy 2010).

In parallel to his impressive career in the public administration, Marlio started also a brilliant career as professor in the Parisian academic field thanks to Colson's guidance and reputation. In 1908 he became professor of transports at the *Haute Ecole du Commerce* (HEC), in which Colson had taught until 1905. In 1910 he also obtained the

<sup>24</sup> Archives de l'Ecole Nationale des Ponts et Chaussées, Personal Documents of Louis Marlio. Archives nationales, fonds des membres de la légion d'honneur (base Léonore), file 1980/0035/11386.

<sup>25</sup> Archives nationales, fonds des membres de la légion d'honneur (base Léonore), file 1980/0035/11386.

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chair of political economy (*économie politique*) at Sciences Po, in which Colson had become professor in 1905. In 1919, thanks to Colson, he was designed to substitute Charles Gide, one of the fathers of the corporatism in France who was opposed to liberalism (Pénin, 1997), for the chair of social economics at the *Ecole des Ponts et Chaussées*. He also continued teaching at the HEC and at Sciences Po (international business) until the eve of the 1930s. In 1934, Marlio obtained also the chair in the section of economics at the *Académie des Sciences Morales et Politiques*, where both Colson and Millerand were already members.<sup>26</sup>

If the liberal economist Colson crafted Marlio's orientation at the University and his career in the administration and academia, the encounter with the socialist Millerand was decisive for his shift to the private business, where his experience of public servant emerged as a crucial factor. Between August 1914 and October 1915, Millerand served as Minister of War and Marlio, in his quality of top-level civil servant already implicated with Millerand when the latter was Minister of the Public Works, was mobilized at the center of the French war effort: the *Grand Quartier Général*. Once there, he occupied relevant positions in the administration of the transports and of the war supplies, getting in touch with the big French private business. As reported by Marlio himself (1927, 1938), the progressive impoverishment of public officers during the inflation years was the main cause of his shift to the more remunerative private business. Yet, the knowledge of the public machine matured during the war, his proximity with the Ministry of War, and his former experience as state engineer and top-level counsel, became a crucial competitive advantage for the firms that hired Marlio. Actually, in 1916, Marlio entered the board of governors of *Produits Chimiques d'Alais et de la Camargue* (PCAC), one of the leading French aluminum and chemical company. One year later, he was called to replace PCAC's general director, Adrien Badin, who died abruptly. At the same time, Marlio became the executive director of *Aluminium Français*, the French national cartel of the aluminum producers that served as the principal market organizer of the French aluminum market during WWI and afterward (Hachez-Leroy 1999).

The arrival of a high-level public servant at the head of both the main French aluminum producer and the commercial entity of this metal, epitomized the stronger bonds established, because of the war, between

<sup>26</sup> Archives de l'Ecole Nationale des Ponts et Chaussées, Personal Documents of Louis Marlio. ENPC, Enseignements, modules, professeurs, 1747–1992, «Economie»

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private business and public administration (Cailluet 1997). Moreover, in the specific field of aluminum, Marlio participated into the organization and the coordination of the whole Allied war efforts, dealing directly with his American and British homologues. The French production of aluminum was not fully deployed during the war because a great part of the hydroelectricity needed for this production was utilized for realizing explosives. That pushed France to become a big importer of this metal from the United States and exposed the French war market to the high price of aluminum due to the inflation and the general shortage of this commodity. In the first part of the war, the competition between France, Britain, Italy and Russia to obtain the American metal provoked further distress to the war effort. Soon after the entry of the United States into the conflict, and the creation of the Interallied Munition Board, this industry was reorganized, according to a direct observer of the aluminum business, as a kind of “cartel de guerre” through which the administrators of the aluminum firms in the belligerent countries stabilized prices and allocated resources (Pitaval 1938).

The role of Marlio during WWI led him to continue his frequentation with the Ministers of War who succeeded Millerand – Albert Thomas and, especially, Louis Loucheur – and to become acquainted with other highly influential politicians such as Etienne Clementel. Loucheur played a crucial role in the settlement of the French war effort. Inspired by the German Walter Rathenau, Loucheur reorganized the French production for the war effort as a system of cartels and inter-firm networks – an experience which continued after the war to help the transition to peace economy (Loucheur took the position of Minister for the Industrial Reconstruction). As Dominique Barjot points out, the war experience of Loucheur was decisive to craft his 1925 proposal, to use international cartels to promote the return to economic normalcy after the shock of the war and the unification of the European market (Barjot 20123). Clementel was founder and president of the ICC and contributed, as Minister of Finance, to the achievement of the Dawes Plan for Germany’s reparations and to the normalization of the relationships between France and Germany during the 1920s. For Clementel as well, the return to normalcy after the shock of the war passed through the recasting of the commerce, of the free trade and the return to the free-enterprise; these ideas explain why he took an active role in the creation of ICC in 1919 (Kuisel 1981; Godfrey 1987; Rousseau 1998).

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## EXPERT OR OPINION MAKER? MARLIO AND THE INTERNATIONAL DEBATE ON CARTELS

The career of Marlio in the private business rose after the war, when he took on prestigious roles in the French national industry. In 1921, when PCAC merged with the other leading French aluminum firm, *Société Electrométallurgique Française* (SEMF), Marlio became the chief executive officer of the new firm, *Alais, Froges et Camargue* (AFC, which after the Second World War was renamed *Pechiney*). In 1939 he became also the president of AFC. In 1924, Marlio entered in the board of governors of the *Société des Chemins de Fer de l'Est*, one of the six leading railways companies in France, and in 1934 he became its president. In 1938, when SNCF was created, Marlio became vice-president of the new company that represented a joint venture between the state and the already mentioned six leading French railways. Apart from SNCF's first executive director, Robert Le Besnerais, Marlio was the only top manager of the railways company who came from the private sector (SNCF's president, Pierre Guinand, and a second deputy president, were both nominated as representatives of the French government) (Caron 2005). Marlio became the president of some electrical companies as well, and he entered the board of directors of the *Union pour l'Industrie et l'Electricité*, whose chairman was Ernst Mercier. Marlio played also a big role within the French business organizations and in the more or less informal business meetings organized during the interwar period. In 1921, he was appointed president of the *Chambre Syndicale des Forces Hydroliques* and was named vice-president of the *Union des Industries Minières et Métallurgiques*, while he participated at the meetings of the movement "*Redressement français*," of X-Crises and he collaborated with the *Comité Franco-Allemand* (Morsel 1987; Fraboulet, 2007).

Endowed with a background of economic liberal ideas, Marlio passed directly through a process of apprenticeship in a high-cartelized industry in which private business and public powers interacted intensively to put in place a sort of industrial diplomacy for the allocation of resources. He became aware of the new phenomenon of interplay between state and industry through his participation into the organized interests of the French electrical and metallurgical firms. His beliefs about the desirability of a free and competitive economy were reinforced by his experience. In his visions, the price settled by a cartel was closer to the market price than the prices fixed by governmental

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authorities. In this respect, the influence of Loucheur was decisive to consider cartels as a means of efficiency that could reduce the distortions of state intervention. In his activity as a businessman, he promoted this kind of approach to aluminum industry at the international level. Marlio worked, since November 1918, with other Allied aluminum producers in order to set cartel agreements to help the return to normalcy and to use them to recast an open market for this metal. These efforts, however, were frustrated by the dismal state of the monetary system and the persistence of the state controls over the production and trade of aluminum. According to Marlio, state intervention in monetary and industrial matters had the effect of completely altering, the international competition between firms (Bertilorenzi 2015).

Marlio tried to recast a more liberal attitude toward the aluminum trade after WWI acting at the political level. In his role as President of the *Chambre Syndicale des Forces Hydroliques*, Marlio obtained from the French government the suppression of political controls over the aluminum trade between 1921 and 1922, in order to help British and Swiss producers to gain back control over their properties of the bauxite resources in the southern part of France. Once back to a more “normal” business economy in aluminum, Marlio led the process to create an international cartel, with the idea to reduce the international price of this metal and harmonize the global output with its demand. Since 1922, Marlio also worked to involve the German producers into the regular meetings held between ex-Allied firms. This was a first real attempt of appeasement between Germany and France, which anticipated the Dawes Plan and the Loucheur proposal to use cartel for the creation of a true European market. Like Loucheur, Marlio thought that private agreements could help the market economy to reemerge from the political control: this vision inspired his leadership of the international aluminum oligopoly. Even if they were an emendation to the market economy, the cartel prices for aluminum were considered as efficient because they were linked to the producing costs, which were falling due to technological progress and the rapid increase of the scale economies. In 1926, when finally the European cartel (Aluminium-Association) was formed, Marlio was called to preside it. He kept the role of president also in 1931, when a new global cartel, Alliance Aluminium Compagnie, was founded (Bertilorenzi 2015).

At the end of the 1920s, the debate over cartels allowed Marlio to play new important roles in international politics. The Loucheur proposal to use cartels as means of economic recovery and reunification was

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highly endorsed by Clementel at the ICC, and became one of the leading themes at the 1927 LoN Economic Conference.<sup>27</sup> After the Conference, the debate about cartels was linked to the proposal to reduce tariff barriers and promote effective market integration in Europe (Bussière 1994). The LoN and the ICC continued to put at the center of their analyses the theme of cartels even after the Economic Conference, when they settled a special committee to promote the adoption of cartels as a means to both self-regulate the industry and help the transition to a more free-trade economy. Cartels were considered as a way to revive liberal principles within the international economy after WWI shock. Since cartels were “voluntary” institutions, merely responding to economic needs, any mandatory involvement by political powers in national or international cartels was considered as highly perverse.

A joint ICC-LoN agency, the *Comité des Ententes Industrielles* (CEII), was created in 1928 in order to undertake the “promotion” of cartels and their use for the purpose of trade barrier reductions. The CEII gathered prestigious industrialists from cartelized industries. Marlio was among them because of his role as president of the Aluminium-Association, because of his double reputation as businessman and member of the academia and because of his intimacy with the leaders of the ICC.<sup>28</sup> Other top cartelists of the interwar period were involved in this initiative. Aloys Meyer was invited because of his chairmanship of the *Entente Internationale de l'Acier*, while Harry McGowan, chairman of Imperial Chemical Industries and member of the boards of many cartels in the chemical industry, replaced Alfred Mond, who was initially designed for the CEII, after his death. Gino Olivetti, a prominent Italian industrialist and president of the ICC, also served as an expert in this committee, as did Clemens Lammers and Antonio Stefano Benni. If the former was a leading member of the German *Reichsverband der deutschen Industrie*, the latter was the president of the *Confederazione Generale Fascista dell'Industria Italiana*,<sup>29</sup> and both were already engaged in several committees at the LoN economic conference (Curli 1990; D'Alessandro 2007). During 1930 and 1931, the CEII organized four conferences to study the problem of cartels. They resulted in the publication of two reports, edited by the LoN. The first, titled *Etude* (Benni

<sup>27</sup> Archives ICC, Procès-Verbal du 21 Conseil, 25 June 1926.

<sup>28</sup> Archives LoN, R.2857, file 16770, Consultation d'Experts en matière d'ententes industrielles. Service d'un expert Français, 29 December 1929.

<sup>29</sup> Archives LoN, R.2829, file 13731, Ententes Industrielles, Collaboration de MM Lammers et Benni, 1929.

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et al. 1931a), included specific case studies; the second explored the general nature of cartels and was titled *Rapport Général* (Benni et al. 1931b).<sup>30</sup> The group of experts claimed to present the theme of cartels from an objective point of view. It was argued that the experts' reputation, along with their inner knowledge of cartels, represented the best guarantee for the quality of the information provided.<sup>31</sup>

For the writing of the *Etude* and the *Rapport Général*, the CEII made use of Marlio's 1930 article (Marlio 1930), in which the author argued in favor of cartels for the rationalization of the European economy. According to the CEII, the above mentioned studies provided evidence that cartels could serve to reduce costs and to stabilize prices. These publications defined cartels as "des associations entre des entreprises indépendantes de la même branche ou de branches analogues, créées en vue d'une amélioration des conditions de la production ou de la vente" (Benni et al. 1931b:8).<sup>32</sup> Cartels were also presented as beneficial to public welfare because they sought to "éviter les conséquences désastreuses de la concurrence déréglée entre de très grandes usines qui, dans les périodes de dépression économique ou en cas de surproduction, ne peuvent plus marcher qu'à allure réduite" (Benni et al. 1931b:36–37). Cartels, for instance, could fight inflation through the process of stabilization of commodity prices, and restrain the adoption of trade barriers and bilateral agreements, limiting the role of the state into trade and monetary controls.<sup>33</sup> Furthermore, it was argued, cartels could serve a political purpose, namely the resumption of liberal economy. Fitting perfectly with Polanyi's narrative, the debate about cartels demonstrated that its leading protagonists were considering market manipulations as a necessary tool to bring back free market economy.

In spite of these ideas, the international economic panorama changed abruptly on the eve of the 1930s, as a consequence of the Great Depression. Cartels did not prove very useful in this circumstance, while governmental policies produced more effective result. Marlio observed directly this transition in the sector of the aluminum industry. Since 1931, the abandonment of the parity by the British

<sup>30</sup> Archives Lon, R.2830, file 20773, Ententes Industrielles. Publications de Monographies, 1930.

<sup>31</sup> Archives ICC, Procès-Verbal du 32 Conseil, 4 March 1930.

<sup>32</sup> "Cartels are associations in which independent firms, either of the same industrial branch or of similar branches aim to ameliorate production or sales conditions."

<sup>33</sup> "Avoid the ruinous consequences of cutthroat competition amongst large producing units that, during periods of economic depression or during periodical over-production crises, can no longer work at economics of scale."

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Pound put in jeopardy the international pricing model for aluminum, which until then was expressed in £/ton. A complicated system of conversion between £-paper and £-gold was settled, while the Swiss Franc was adopted for the internal transactions (metal swaps and stocks controls) of the cartel. Nevertheless, the new monetary instability drove the former international trade in aluminum industry to an end and brought about the reemergence of governments as actors of the economic regulation. After Hitler's takeover and, above all, after the new monetary and trade policies set by Hjalmar Schacht, the German Minister of Economics and *Reichbank's* president, the German delegates claimed the need to change the working of the aluminum cartel. They proposed a system of national monopolies, in order to free German aluminum industry from any limitation related to the quotas.<sup>34</sup> Louis Marlio, as president of the Alliance, was directly involved in the search for a compromise between the different components of the cartel. During 1935, Marlio negotiated with Schacht in person, granting the German group some exceptions to the output limitation with respect to the cartel rules. These exceptions, however, put in jeopardy the cohesion of the cartel. The British delegates asked for the same exceptions and, in 1936, a general negotiation started in order to settle a new system based on the "home markets." The rush to rearmament finally hampered the continuation of the negotiations and the cartel was put on hold in 1938 (Bertilorenzi 2014).

Aside aluminum, in other three cases the transition toward a new and growing role of politics into the international cartelization movement took place. The steel cartel, which worked between 1926 and 1931 by means of production quotas, was not able to cope with the Great Depression and with the development of national policies to support steel production. The tension between the international self-regulation and the national policies drove the cartel to an end in 1931. After about a couple of years of negotiations, a new cartel was created with a system of reservations for "home markets" of its members. Each group was completely free to produce for the domestic market without quotas, while the cartel only fixed export quotas (Hexner 1946:82–83;

<sup>34</sup> C'était une erreur de penser de régler le marché de l'aluminium par l'entremise de l'Alliance. Le cartel international de l'acier a commis la même faute [...]. C'est pourquoi je suis décidé d'organiser tout d'abord l'exportation dans mon pays, afin de pouvoir vous demander ensuite de nous arranger sur les marchés d'exportation – Rio Tinto Archives Paris, Pechiney Documents, 00–2–15929, Alliance, Comité de Direction, "PV 15ème Réunion du Board of governors," 10 February 1934.



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Barbezat 1989; Berger 2000). In the case of tin and rubber, new types of agreements emerged to reduce outputs and stockpile excess. These agreements, reached under the control of political authorities, were very innovative because governments played a relevant role in the management of the stocks and the buffering of the market. This kept some of the unsold stocks outside the market, allowing for minimizing the output and manipulating the prices (Coates 1987; Hillman 2010). The main problem for programs of output restriction was that the general economic crisis of the 1930s made the acceptance of sacrifices even difficult. The earlier definition of cartels as voluntary and private organizations, did not suit anymore this new scenario.

Louis Marlio tried to use the CEII to promote a vision according to which only private cartels could have solved the economic turmoil of the Great Depression and to criticize state intervention in the management of cartels as a source of further disequilibrium. Even within the CEII, however, a new vision about the political intervention into cartelization slowly emerged. Lammers, for instance, became a supporter of the role of governments which, according to him, had the merit of making cartels more cohesive and effective. Benni pointed out that the crisis was changing the range of cartels. In his opinion, while during the 1920s cartels served to provide governance to the international markets, the crisis of the 1930s called for the adoption of new regulations at a national level that compelled governments to intervene in the promotion of cartels, like in the Italian and German cases.<sup>35</sup> This internal debate about the nature of cartels did not know a definitive solution during the 1930s. The 1937 congress of the ICC, which was largely devoted to Lammers' group on international cartels, discussed three possible models of cartels. The aluminum industry, described by Louis Marlio, was presented as the *Idealtypus* of the private cartel, in spite of its on-going transformation toward new forms of governance. The tin and rubber industries, by contrast, were described by Sir John Campbell, who according to Hillman (2010) was their leading crafter, as examples of agreements under strict governmental control. Between these two categories, Meyer described the steel industry as a combination in which public powers endorsed and helped the establishment of the cartel (International Chamber of Commerce 1937).

<sup>35</sup> Procès-Verbal de la Commission des Ententes Industrielles Internationales, 27 and 28 June 1934, Archives LoN, serie 11803, file 13855.

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Marlio's failure in imposing his views to the CEII pushed him to shift from the level of expert maneuvering behind the scenes, to the role of the expert who openly defends his opinions about the desirability of the liberal economy. Already in 1934, when these transformations were only at the beginning stage, he took part in the debate about the "économie dirigée" of André Siegfried, condemning the irrationality that led governments to elaborate economic and military plans (Marlio 1934). Perhaps, Marlio decided to become a member of the *Académie des Sciences Morales and Politiques* in 1934 to carry out more efficiently his battle for liberalism against state interventionism. The authority provided by the acquired membership of this cultural institution pushed him to undertake an intense activity as essayist, with the publication of a half of dozen books which he signed as proud "membre de l'Institut." In 1935 Marlio published an *essai* about the Treaty of Versailles (Marlio 1935), in which for the first time he talked openly about the failure of the supra-nationalism of the LoN. In spite of the fact that he had believed in the LoN-ICC methods – to which he also contributed – he considered the nationalism contained in the fourteen points of Wilson, in particular the one on the self-determination of nations, detrimental to the free market economy, to internationalism and, as a consequence, to peace. This ideas were also developed in his last book, *Le Cercle Infernal*, where he wrote : "C'est un paradoxe de baser la paix des nations sur l'association des nations qui sont, par essence, les plus belliquesuses de toutes collectivités" (Marlio 1951:278).

In 1938, Marlio published his first book as businessman "engagé" titled *Le sort du capitalisme* (Marlio 1938). His thought about the liberalism evolved toward a more social vision of the economy. While the old liberalism of Adam Smith was not applicable to the new big business economy, Marlio did not consider "dirigisme" and state interventionism as the solution to the economic crisis. His vision shifted toward some form of "capitalisme organisé" in which, while cartels were fundamental to self-regulate the international economy, organizations of employers and workers should have self-managed the resolution of their conflicts in the national fields, without state intervention. *Le sort du capitalisme* granted to Marlio the invitation to the *Colloque Lippmann* which, held in Paris in 1938, was often considered the birth of the neo-liberal movement and which was motivated by the journey to France of Walter Lippman, the author of *The Good Society* - a first criticism to the New Deal. *The Colloque* gathered the main personalities of the future intellectual movement that led to the creation of the

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Mont Pelerin Society: Aron, Marjolin, Von Hayek, Von Mises, Ropke, Van Zeeland and many others (Denord 2007; Audier 2012, 2014) Some scholarly studies assume that Marlio himself, on that occasion, coined the term “neo-liberalism.” His “néo-liberalisme” was synonym of a more social vision of the liberal economy, in which organizations were considered as elements of self-regulation. While he agreed with the other participants about the aberration of state intervention into economy, Marlio also defended cartels as means of self-regulation. After the conference, Marlio became the first president of the ephemeral *Centre international pour la renovation du libéralisme* (CIERL), an initiative which ran only for one year and which aimed to promote the recasting of liberism. In *Dictature ou Liberté* (Marlio, 1940), Marlio saw state intervention into economy as a form of dictatorship, strictly linking general freedom to the freedom of economic and social actors to settle private agreements.

These beliefs were reinforced during World War II (~~WWII~~), when Marlio left France and moved to the United States (in June 1940). According to Henri Morsel (1987), Marlio obtained permission to be sent to the United States with an official mission to promote the image of France there and to help the trade of foodstuff between France and the United States. In fact, the secret purpose of Marlio’s mission was to push the Americans to enter the conflict.<sup>36</sup> When he arrived in the United States, Marlio got to know the Brookings Institution, a powerful American counseling agency close to the Democratic Party that supported the American intervention in the war. As requested by its president, Harold Moulton, Marlio was hired by Brookings as an expert in economics and international affairs. The think tank financed the publication of several studies on the possibility that the United States could enter the war, the military superiority of Americans compared to dictatorships and which strategy to adopt toward Japan and Germany.<sup>37</sup> Thanks to the intermediation of the Brookings, Marlio took an active role in the rapid rearmament of the American industry. The US government commissioned two studies to Marlio: one on the production of aluminum in the United States and the other on the electrical energy for the American military production. Marlio served as

<sup>36</sup> TNA, FO 371/24354, Sir Samuel Hoare, (British ambassador in Madrid), Reported mission of M. Marlio to United States of America, 30 June 1940.

<sup>37</sup> Brookings Institution Archive, Washington D.C. (ABI), Personal documents of Mr. Louis Marlio, Harold G. Moulton to Louis Marlio, 25 August 1941. Harold G. Moulton to Louis Marlio, 22 August 1944.

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economic advisor for a new entrant in the American aluminum market, Reynolds Metals Company.<sup>38</sup> In the United States, Marlio's ideas further evolved into which he called "liberalism social." To this theme Marlio dedicated three books (Marlio 1943, 1944, 1951) and one public conference (Marlio 1946), while on his ideas about cartels published his "version" of the history of the aluminium cartel (Marlio 1947). His interwar liberalism, which saw cartels as the kernel of the future international trade, and his aversion to the active role of the state in the economy, were implemented by new social visions and political proposals. He became very critical toward the controls over trade, people and currencies which characterized the Bretton Woods post-WWII global scenario. Instead of the state, Marlio proposed the foundation of a world government inspired by the theories of Wendell Willkie (1943), which would have terminated the supra-nationalism of the LoN and ONU. In each state, he proposed the creation of a *Fédération sociale*, in which trade unions and trade associations would be responsible for the economic regulation. This model differed from the corporatist one, because the state had no role to play. Marlio also criticized one of the pillars of the modern welfare state, arguing that employers should have taken the burden to subsidize the jobless through private foundation. Again, as in his vision about cartel, the *Fédération* was a tool meant to save the fundamental mechanism of the market economy from the ineffectiveness of the state (Marlio, 1951).

## CONCLUSION

Our article purported to show that we gain a better understanding of regulatory approaches to markets by analyzing the spread of new types of valuation devices across the worlds of high bankers and industrialists. If the Great War weakened the 'international' of financiers and, more generally, the pre-war economic elites, the bankers and industrialists who promoted international cooperation across national borders to regulate the growth of global markets in the interwar years did not take stock immediately of the profound transformations that WWI had brought about. They realized the magnitude of the change through a long and painful process of apprenticeship, as we have seen in the case

<sup>38</sup> National Archives and Records Administration, RG 107, War Department. Office of the Under Secretary of War, box 4, Louis Marlio (Brookings Institution) to Mr. Robert P. Patterson (Under Secretary of War), 12 January 1942. ABI, Personal Documents of Mr. Louis Marlio, Marlio to Moulton, 5 February 1942.

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of Toeplitz. Moreover, they saw in very negative terms the move toward a larger role of the state in the economy, even though the state was the main source of their personal and professional achievements, as we have seen in the case of Marlio. To use Pareto's image of "history as the graveyard of elites" – an image elaborated having in mind the carnage of WWI – this paper demonstrated that economic ideas and forms of ideal market mechanisms survive for some time before everyone realizes they have long been dead. After WWI, a mounting tension emerged between the bankers' and elite industrialists' beliefs on the one hand, and the necessity to make use of new forms of regulation and valuation techniques – once verified the ineffectiveness of the old one – on the other. If the 1920s witnessed an attempt to restore the international liberal economy after the shock of the Great War, the Great Depression showed the impossibility of "recasting bourgeois Europe" (Maier 1975). The impact of state regulation in key economic activities such as monetary policy, industrial production and international trade, put an end to the liberalism as it was understood before 1914. This "Great Transformation" was not without oppositions and adaptations, as this chapter has demonstrated.

To analyze changes in valuation devices that were being considered legitimate during both times of normal economic exchange and times of crisis, we distinguished between two levels: their efficiency and their legitimacy. We argued that valuation devices can still be held legitimate, especially by aging elites, during times when they no longer work well to coordinate markets. We showed that the mounting tension between efficiency and legitimacy may originate from the slow replacement of older elites, who were used to interact with markets in their own way, based on prior experience of a world whose rules they still hold to be valid long after market mechanisms have changed (Mallard 2014). This process, which evokes Polanyi's paradox mentioned in the introduction, gave legitimacy to speculation, providing arguments to prove its efficiency in the process of currency stabilization, and to cartels, presenting them as necessary instruments of price valuation at times of multiplying market failures, and as virtuous examples of self-regulation in opposition to state interventionism. Both devices (speculation and cartels) were part of a specific narrative about the "return" to liberal economy, an illusion that delayed the understanding of the real reach of the "Great Transformation," as we have seen in the specific case of Toeplitz and Marlio. Both devices (speculation and cartels), lost efficiency in setting prices, paving the way, during the 1930s, to new forms

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of market regulation in which the state emerged as a new, effective and legitimized actor.

Józef Leopold Toeplitz, the protagonist of the first part of this chapter, epitomizes the international high financier of his time. Louis Marlio, analyzed in the second part of this work, is more than a simple representative of the interwar industrial world. His activities included also academia, public administration and top-level consultancy for governments, such as the French and the American ones, and international organizations, such as the ICC and the LoN. This latter utilized Toeplitz's expertise as well, though not systematically as in the case of Marlio. As emerges clearly from his comments on Cassel's non-orthodox approach to the post-war problems of currency stabilization, Toeplitz was a practitioner who had learned his profession on-job-training and was not particularly concerned to elaborate a vision for the future. Marlio's vision, as businessman, consultant within the ICC and the LoN, chairman of the interwar cartels of the international aluminum industry and prolific publicist, was projected to the future. In Marlio's view, cartels were an answer to the current crisis but also a first step toward the resumption of liberal economy. Yet, in spite of the differences, Toeplitz and Marlio – the latter twelve years younger than the former – had to deal with the same post-war scenario and respond to the same tough challenges: namely, the creation of some form of “organising power” in a period of declining profits and the emergence of new forms of governance for the national and international economies. These challenges were complicated by the intrinsic liberalism of the two protagonists of this story.

If we look at the Polish-born banker and the French industrialist from the standpoint of valuation, we find in both the same tension between beliefs and actions. In the case of Toeplitz, this tension clearly emerges if we look at his “struggle” against Stringer – a civil servant who, during the 1920s, can be considered as a central banker “in progress.” During the mid 1920s, the banker did not hesitate to build a temporary alliance with the politics – namely his old friend Volpi, the then Minister of Finance – in order to take over the Italian central bank role in stabilization policies. Toeplitz, a private actor of the banking world, carried a specific vision of market regulation according to which speculation could help stabilization, incidentally offering to “his” bank the possibility to realize profits (or vice versa). In the case of Marlio, there is a continued tension between the strong connections of this businessman with the liberal field in economics, on the one hand, and

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his belief in cartelization as the best tool of market “self-regulation”, on the other. His opposition to state intervention in economy, which made him diverge to other French *Grand Patrons* of his time, lured by the so-called “*dirigisme*” (Morsel 1987), is even more surprising if one considers that Marlio spent a big part of his career in the public administration. At first sight, Marlio’s contradictions are striking: a cartelist who defends the market economy; a civil servant who does not trust the public administration; a consultant of the LoN and ICC who did not like supra-national organizations, a determinant player in the US war efforts who did not approve the Bretton Woods architecture. In reality, all these tensions reveal the complexity of the adaptation of economic actors to the institutional economic change (North 1990).

WWI served as main crafter of the careers of Toeplitz and Marlio. Toeplitz became, *de facto*, the number one of the BCI in 1915 after a long process of apprenticeship. Toeplitz, a former Russian citizen who had obtained the Italian citizenship in 1912, succeeded to the “German” (even though “Italianized”) Weil and Joel in a situation of rising nationalism, which to some extent announced the post-war advent of fascism. Marlio arrived at the chairmanship of the PCAC in a difficult moment for the firm, when new commitments with the French governments linked to the war effort were crafting the relationship between business and politics within the aluminum industry. When the *Ingénieur Civil des Mines* Adrien Badin died in 1917, the state engineer member of the *Grand Corps des Ponts* Louis Marlio was considered the best choice to embody the new proximity of business to politics. In the merger of 1921 with the second largest French aluminum company, Marlio again was called to play the role of business continuator. In spite of what Toeplitz and Marlio embodied during WWI, a period of extremely complex transition, they spent the rest of their lives as advocates of the old world that they had contributed to replace. They climbed to top-level roles when nationalism was at its peak. Aware of this tendency – as clearly emerges from Toeplitz’s comments to Heimeman’s *Esquisse d’une Europe nouvelle* and from the critiques of Marlio to the potential aberrations related to the Wilsonian principle of self-determination of nations – they proudly maintained an international profile on the eve of globalization sunset. Both well equipped and positioned during the 1920s, they did not fully understand the 1930s. Toeplitz, displaced by the move of the fascist government toward autarky as a response to the Great Depression, had been already weakened in the second part of the 1920s by

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the “paradigm shift” in banking partially described in section two. His defence of a (loose) regulatory framework, a business model (the universal bank) and an interpretation of banking activity that were destined to be reversed, contributes to turning him into the “old” banker *par excellence*, confronted with major institutional, operational and cultural transformations. Marlio, displaced by the wave of nationalizations, “dirigisme” and “plannisme” experienced at a global scale during the 1930s and after WWII, continued to argue against any form of state intervention in economy, in opposition to other French *Grand Patrons* of his time, lured by these formulas (Morsel 1987) and in opposition to the post-1945 Bretton Woods order. All this considered, it is not surprising that both Toepfritz and Marlio, as collateral damages of the “Great Transformation,” died emarginated and almost forgotten.

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