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Book review "Dark Credit Matter. The Development of Peer-to-Peer Lending and Banking in France"

Jérôme Sgard

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Hoffman, Philipp T., Gilles Postel-Vinay and Jean-Laurent Rosenthal. 2019. *Dark Credit Matter. The Development of Peer-to-Peer Lending and Banking in France*. Princeton & Oxford: Princeton University Press, 303 pages.

Jérôme Sgard, Sciences Po, Center for International Studies (CERI), CNRS, Paris, France.
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In *Priceless Markets* (Cambridge University Press, 2000), Phil Hoffman, Guiles Postel-Vinay and Jean-Laurent Rosenthal analyzed how Parisian notaries operated a broad-based, peer-to-peer credit market which extended well within the small *bourgeoisie*. *Dark Credit Matter* widens this exploration to the whole of France, down to provincial towns and villages, and confirms the main point: notarial credit was not only ubiquitous; it was by far the main source of private funding under the *ancien régime* and until the late nineteenth century. Quite strikingly, the authors estimate that, before the Revolution, its total stock represented over twenty-two percent of GDP, with often large unit-loan volumes, long maturities and a third of households financially included.

This result, as the many others that are presented in this new book, is founded on a methodology quite similar to the one they followed twenty years ago: the authors built a database of close to 240,000 individual loan contracts, collected in ninety-nine representative local markets, at six points in time between 1740 and 1899. They complement this data collection effort with smaller surveys for 1912, 1927 and 1931. As in *Priceless Markets*, exchange letters, hence short-term commercial credit, are not included because they were typically not registered: the natural clientele of the notaries was civil society at large, not *les marchands* as a specific status group.

This superbly researched book thus has a lot to offer to specialists of French history as to all those with even a passing interest in modern finance, early economic growth, or contemporary economic development. They might only be misled by its title: as the authors clearly demonstrate, there was never anything dark or hidden in notarial credit; even its qualification as informal is not convincing given the semi-official position of notaries and the large body of statutes and regulations to which they were subjected. What the image of darkness in the title alludes to is rather the willful ignorance of the economic historians who keep reproducing what the authors consider to be old clichés. First is the idea, in the Rondo Cameron line, that an underdeveloped banking system was a cause of the slow French takeoff; followed by the common view that the Civil Law system is bad for growth in general and for credit intermediation in particular. In a slightly insistent way, this book keeps denouncing these two theses and may even occasionally suggest more consistency or efficiency in notarial credit than there actually was.

Going down to individual contracts allows indeed for a direct analysis of the microeconomic foundations of this market: notaries could mediate between borrowers and lenders because of their intimate knowledge of their client's financial track-record, the property they owned and also the current, local prices of the underlying assets. In other words, notaries were pure Akerloviaan intermediaries: they traded on information. At the same time, all loans carried the same interest rate (five percent, most of the time), so that prices did not clear the market, which was regulated by way of queues. The widespread response to this externality was for notaries to refer some of their clients to colleagues, so that supply and demand for loans would match more easily while integrating the whole credit market. The key argument here is that referrals worked (i.e. there was no systematic cheating) because notaries cared about their long-term reputation as good referees, which conditioned continuing access to these profitable networks. The fact that they did not have a law-based, local monopoly was critical at this point.

This mechanism makes a lot of sense in a broadly symmetric environment, like the Parisian one, where these recommendations could circulate both ways within each pair of notaries, so that they would balance out over time. The open question is whether this worked as well in the provinces,

where notaries from smaller towns and villages addressed many more clients to their colleagues in larger communes than they received. We are even told that a tangible proportion among the former did not receive any clients at all. The authors explore this de facto hierarchic structure of networks and the incentives it created, and they defend that the reputational argument still holds in this context (Chapter 4 and appendix C). One just wonders whether, more simply, these one-way referrals could have been balanced by some kind of back payment. A revenue transfer would have had the side benefit of helping maintain the dense network of notaries across the whole country, hence its continuing economic relevance.

The authors insist indeed that the French Civil Law tradition was flexible and innovative (see chapter 5), but they also raise indirectly the very Tocquevillian question of whether the intense legal fragmentation of the old kingdom was an initial factor in the success of the notaries, simply because of their very local roots. This legal fit would have been compounded by the statute-based opposition between merchants and non-merchants, each with their respective jurisdictions. Institutional coherence and territorial coverage would have thus supported the very centrality of notarial credit, as illustrated by their close association to the *Fermiers Généraux*. The authors actually suggest in passing that this market was at its apex in the last period before the Revolution (p. 70). The political shocks and the hyperinflation of the 1790s then caused a drop in all measures of economic performance, but by 1840 the notarial market had broadly recovered. The eventual gradual decline from the late nineteenth century would have not resulted, however, from the expansion of banks: rather, banks seem to have relied at first on notaries as a source of microeconomic information, before gradually shifting to the official records of mortgaged assets (the *Registre des Hypothèques*). From then on, the book concludes, the dynamic of the whole market worked against the notaries, before the expansion of regulated banking during the interwar period further constrained their capacity to intermediate.

The key feature during the long nineteenth century remains therefore the conjunction of the continuing economic relevance of notarial credit with its relative archaism, when seen against the twin trends towards market integration and capitalist takeoff. There is no evidence in *Dark Credit Matter* that notaries contributed substantially to the development of infrastructure, like railways, or to investments in industry or large-scale housing in the high-growth conurbations like Paris, Lille or Lyon. Any connection to capital markets was also missing. Notarial credit thus remained geared to the more traditional social sectors, activities and regions of the country – a bit like the elected commercial courts, whose essential features also date back to the old monarchy.

What thus comes out of this book is the image of a typical *ancien régime* institution that faded away very slowly indeed, together with its own local, somewhat insular economic ecology. The argument that, within this environment, the whole life-cycle of notarial credit was ultimately driven by informational technologies is elegant. But it also suggests that institutional persistence had no political economic dimension. Did notaries never get it wrong? Were their networks never threatened with attrition? Did they have only clients and no enemies? These are the intriguing questions that *Dark Matter* leaves us with.

Jérôme Sgard (Sciences Po/CERI, Paris)