Book Reviews

MODERN EUROPE

London and Paris as International Financial Centres in the Twentieth Century. Edited by Youssef Cassis and Éric Bussiere. Oxford: Oxford University Press, 2005. Pp. xiii, 367. £50.

On the eve of the First World War, Paris ranked second among the main financial centers of the pre-1914 globalizing economy. Although unable to rival the depth and breadth of London's money and capital markets and the international ramifications of British banks, Paris succeeded in attracting foreign banks and borrowers more than any other European center of the time. Throughout the rest of the century, however, the two centers moved on increasingly diverging paths. The shrinking role played by Britain and France in the international economy, along with the decline of the pound and the franc as international currencies, hampered for good Paris's global ambitions, yet did not prevent London from surging again as an international "financial phoenix" in the second half of the century. What accounts for this divergence? To what extent can London's success and Paris's failure be explained by different levels of financial development, different characteristics of the interwar nationalistic retrenchment, or different strategic choices made by governments and business elites? Shedding light on these challenging questions was the ambitious purpose of the editors of this volume, who rallied British and French scholars at a one-day conference held at the LSE back in 2000. The book offers plenty of comparative hints about the when, why, and how of the London-Paris divergence, although it hardly attempts to draw conclusions from the rich evidence provided. Readers would have welcomed an additional effort by the editors to wrap up some of the volume's findings in the form of conclusive remarks. Even more so, as the London and Paris chapters tend to run parallel or sit back-to-back and rarely cross paths or look into the other's mirror.

Overall, the volume suggests that London's international vocation can be largely credited to a positive feedback between the legacy of past successes and the ability to adapt to new circumstances. London's global reach and higher degree of diversity and functional specialization before 1914 (surveyed by Y. Cassis, pp. 107–18) provided an enduring competitive advantage over the narrower geographical and functional specialization of Paris. As emphasised by R. Michie (pp. 21–22), this allowed London to exploit new opportunities created by apparently adverse developments, as demonstrated by the rapid growth of a foreign exchange market during the unprecedented exchange rate volatility of the 1920s. French trade remained largely dependent on London's acceptance houses; later attempts by the French authorities to promote a franc-based acceptance market failed, as documented by A. Plessis (pp. 42–54). The British Empire (the subject of N. Ferguson's contribution, pp. 57–77) provided a wider, richer, and safer background for the survival of the international spokes of British finance than the French Empire. Moreover, the post–World War I geopolitical developments in Russia and the Balkans proved particularly disruptive for the network of banking and financial linkages centered in Paris (as emphasised by H. Bonin, pp. 183–204), in spite of the fact that the 1931 systemic banking crisis of Central Europe apparently hit British banks harder than French (in his chapter, P. Cottrell provides interesting insights of the role of Montagu Norman and the Bank of England in the management of the Credit Anstalt collapse and the ensuing faltering of British merchant banks, pp. 153–82).

Both the British and the French narratives unanimously identify the defining moment of divergence with the post–World War II developments. Since the late 1950s the emergence of the Eurocurrency and Eurobond markets and the regulatory constraints imposed on the international development of the U.S. system gave European financial centers fresh opportunities for growth and profit. In spite of the die-hard legacy of foreign exchange and capital controls in both economies, British authorities were prepared to adopt a tolerant and pragmatic approach that favored the entry of U.S. and other foreign banks, and the development of foreign currency transactions (the subject of chapters by C. Schenk, pp. 207–28, and M. Baker and M. Collins, pp. 247–64). This environment definitely proved more conducive to financial openness and innovations than the *dirigistic* attitude of French authorities, whose financial reforms (the Debré legislation of 1966/67) were short-lived and mostly unsuccessful (Plessis, p. 51). In fact, O. Feiertag provides archive-based evidence of the wide consensus among French monetary authorities and financial and business elites on the desirability of an insulated financial system subordinated to the objectives of indicative planning (pp. 229–46). In fact French scholars explain the endurance of financial mercantilism as the consequence of an "overdraft economy" dominated by an exclusive club of incumbent *banques d'affaire* and deposit banks, on whose investment banking strategies in different epochs S. Saul (pp. 119–50) and E. Bussiere (pp. 265–85) provide interesting details. The internationalization gap accumulated in the 1960s–1980s had long-lasting consequences. At the turn of the twenty-first century, London retained or even strengthened its dominance as a "global financial powerhouse," though that cost her an invasion by U.S. investment banks and the acquisition of traditional British merchant houses by U.S. or European competitors—"the death of gentlemanly capitalism," as dubbed by R. Roberts (pp. 287–312). On the contrary, in spite of its own financial "big bang" in the late 1980s and the potential externalities created by the EMU, the international status of Paris seemed to be still questioned not only by foreigners but also by French companies themselves, which preferred to raise capital abroad during their rapid and successful process of internationalization (A. Straus, pp. 313–25).

Whereas the long-run perspective provided by the volume is certainly one of its main assets, the lack of a unified analytical narrative makes it somehow fall short of its potential. The only exception is the nice chapter by M. Flandreau and F. Gallice (pp. 78–106), who use the archival records of Paribas to reconstruct the structure of the bank's international money balances. By doing so, they successfully uncover the hidden geography of short-term capital movements in the heydays of the Gold Standard. As it emerges from their analysis, Paribas operated two complementary networks of correspondent relationships: a public network related with franc-denominated sovereign lending to governments whose finances the bank helped manage (interesting insights are provided of its ties to Russia); and a private network, through which the bank systematically recycled excess liquidity by purchasing sterling bills placed with foreign banks (mainly German and Austrian, even on the eve of the breakout of the war) operating in London. The latter were liquidated whenever the bank faced massive withdrawals of resources by its foreign depositors. Such a mechanism linking the two financial centers, they suggest, may have contributed to the volatility of London balances (a feature of short-term capital flows under the gold standard already noted by A. Bloomfield in his classical study) and also puts into a different perspective the systematic operations on sterling bills conducted by the Banque de France. Their contribution adds further value to a volume whose richness of historical insights makes a rewarding reading for anybody interested in the financial history of Western Europe.

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