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## Introduction\*

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The recent financial crisis, originating in the US capital markets, seems to have overridden the established international framework of financial centres, as if globalization nullified the existence of their different geographic locations. In fact, this highlighted the pre-eminence of the leading world financial centres during the second phase of globalization, the first phase being the origin of the internationalization of capital flows and then, subsequently, of the recent global crises (1987, 2001, 2008). It also draws attention to the tension between domestic and global finance, between the decentralization and centralization of finance and money. This dramatic event has stimulated a growing interest in reconsidering international capital flows over the last two centuries.

Although the international financial centres (IFCs) formed from 1900 onwards are still, 100 years later, the principal centres, the international success of one or another financial centre is always being questioned. Over time, the criteria of an IFC are not easy to define: what kind of capital flows are to be taken into account? From which point of view are they studied? We intend here to extend discussion of this subject to all kinds of capital flows such as money deposits, and short-term and long-term investment, supported by all kinds of institutions: markets; banks; brokers, etc. We also presume that an IFC is successful when financial agents, investors and borrowers—domestic or foreigner—agree to concentrate their operations on that location.

What we can say is that the definition of an IFC is not simple. When can a financial centre be considered international? Geoffrey Jones made an interesting contribution by defining three types of centre: sub-regional (focused on bilateral trade); regional (for instance, servicing a region such as Asia or Europe); and global.<sup>1</sup> We can use his typology here in considering the two last centuries. We consider regional or global types of IFC, such as New York, London, Paris, Hong Kong, Berlin, and St Petersburg, either in themselves or from an external perspective (from Latin America, Russia, and Romania). The second major difficulty is that a financial centre provides different kinds of

services, and is the focus of a wide range of capital flows from different markets: money; gold; banking; insurance; trade—which cannot easily be ordered or ranked. The majority of historians used to approach international financial centres in terms of the quality of their banking system. Hence the main issue concerned banking development abroad and its organization; quantitative criteria established were the number of foreign banks located in a centre, the stock of foreign direct investment in a country's banking system, the foreign assets of these banks, and so on.<sup>2</sup> In this perspective on international banking networks it is the connections between foreign banks—the creation of syndicates, consortia, banking clubs, and groups—which are of prime importance. For other historians, like Ranald Michie,<sup>3</sup> the central issue is the importance of stock exchanges: the heart of a financial centre is the bourse. Here, therefore, the more relevant quantitative criteria for the evaluation of the degree of internationalization of a financial centre are the ratio of foreign issues to total issues, or the volume of foreign securities in bank capitalization. Historians are necessarily of their time: this focus upon bourses has increasingly developed as global capital markets grew during the first and the second globalizations. Moreover, since the 1980s, the economic literature has been riding the same wave.

Our aim is to join the two points of view, arguing that each is part of a single and relevant approach. One part of the book is dedicated to the involvement of a banking system in international issues and the major consequences of this for a financial centre's activity, since involvement relates to the proportion of equities in the primary market. Another part deals with the degree to which efficient secondary markets are responsible for the success of an IFC: how does a stock exchange succeed—or not—in making appropriate quotations, in fixing appropriate prices, and in providing consequent yields? Finally, several authors argue that to attract international capital flows, the role of leading banks in the formation of financial centres and the importance of an efficient banking system has priority over the existence of dynamic stock exchanges. All three approaches are represented in this book, as we seek to cover financial centres from a range of perspectives.

The success of this or that centre arises from different factors, none of which are either systematically sufficient or necessary. For instance, it is now well known that the macroeconomic context is the principal precondition for a first rank financial centre, offering a strong currency, a robust economy, and well-developed international trade. But are these sufficient conditions? Several historians have tried to identify the manner in which financial centres became successful and dominant and then managed to retain their dominance. Charles Kindleberger renewed attention to this feature by studying the process by which a domestic financial centre was created. He demonstrates how a financial centre that is dominant within one country will, thanks to the high specialization of function involved, emerge as a worldwide centre—this

international development being part of the same process of concentration of capital that had occurred in the domestic environment.<sup>4</sup> Howard Curtis Reed's pioneer work on this question gives us a historical hierarchy of IFCs according to a statistical analysis based on a large number of variables, with priority given to foreign banks and multinational companies.<sup>5</sup> More recently, Youssef Cassis enumerated various factors that may have contributed to the rise of the main IFCs during the nineteenth and twentieth centuries, paying especial attention to the economic importance of the parent country.<sup>6</sup> The purpose of this book is not to summarize the relevant findings of such work, but to identify several points that might have been underestimated, and to clarify many of them.

### 'FINANCIAL SERVICES' AS RELEVANT PERSPECTIVES

During recent decades there have been many theoretical or empirical studies in financial economics dealing with the financial system and capital flows. Though mainly written from a historical perspective, the chapters in this book all take account of these recent contributions.

If an international financial centre is defined as a cluster of financial service providers, historians can shed new light on the economic concept of 'financial services'. The Coase theorem, which states that, in the absence of transaction costs, uncertainty, and externalities, private parties will allocate property rights to their most efficient uses,<sup>7</sup> rode the wave of market deregulation during the 1960s; but the associated dedication to free markets has been blunted by several financial crises, which have erupted during the growth of globalized capital markets (1987, 2001). This theoretical trend has recently been checked and amended when applied to new financial markets.<sup>8</sup>

And yet, at least until the recent crisis, economic theory for the most part treated regulation in developed markets as an obstacle to financial development. In terms of supervision and regulation, it was thought, less is more; and this intellectual approach to deregulation is still part of the academic mainstream.<sup>9</sup> Subsequently, economic literature on financial services was particularly focused on whether bank-based systems or market-based systems are the more efficient. Until economists finally moderated their enthusiasm and found financial services complementary,<sup>10</sup> the answer nearly always favoured stock markets over credit finance. From our perspective, this distinction is not relevant and the financial structure does not seem important; a banking system is often intricately tied into capital markets, and from the corporate point of view it is usual for the credit provided by banks to be complemented

by the issue of new stock by the same banks. We therefore intend to study the whole capital market (including the money market, the gold market, and trading finance) together with the capital flows between these institutions. The key to success lies perhaps in the efficiency of financial services as a whole, for investors as well as issuers, deriving from good ‘synergy’ between banks and markets.

Conversely, we could make use of the concept of financial services provided by an IFC developed by financial theory. Some aspects of the ‘Law and Finance’ perspective can be a good basis for evaluating the attractiveness of a centre, and could provide methodological background, drawing especially on the literature on financial services and on market regulation concerning whether the investors’ protection measured by the character of legal rules and whether the quality of law enforcement has consequences on the size of capital markets.<sup>11</sup> The legal protection afforded to creditors and the level of credibility and transparency of accounting rules are also likely to affect economic agents’ financial decisions.<sup>12</sup>

The historical literature on regulation also underpins an enduring debate on different kinds of financial development.<sup>13</sup> This began to be relevant in understanding a major financial crisis like the Great Depression; when the Senate Commission of 1934 outlined the deficiencies of the market they took special note of the lack of regulation of the banking system and of listing requirements.<sup>14</sup> Fifty years later, after the 1987 crash, several inquiries were launched in the United States, among which was the famous Brady Report, which detailed the faults of the trading process and stabilization mechanisms on the New York Stock Exchange (NYSE) and the Chicago Exchange.<sup>15</sup> In academic discussion, historians like Larry Neal and Lance Davis emphasized the micro-structure of markets, especially rules and regulation in emerging capital markets.<sup>16</sup> In earlier work, Ranald Michie compared the governance and membership of the London Stock Exchange and New York Stock Exchange, and their consequences upon the efficiency of each bourse.<sup>17</sup> More recently, economists have taken note of this approach, which is based on micro-structures and supervision.<sup>18</sup> Consequently, market organization, institutions, and supervision remain current issues.<sup>19</sup>

We can thus draw on the following points from the economic literature, directed towards the organization and regulation of the capital market: security; return on investment; liquidity; and information. Which criterion was the most decisive, at what time and why? The changing international context, which determines the direction of international capital flows, can modify the importance of one or another factor. For instance, following the Great Depression it was no longer the interest rate and return on investment that were of importance, but rather security of investment and its liquidity. More recently, the original subject of our study—the attractiveness of IFCs—has undergone a reassessment as a result of the subprime default, which

emphasized the importance of security and transparency rather than return on investment.

### INSTITUTIONAL APPROACHES: PAST AND PRESENT

In 1931, an essay by Paul Einzig elaborated the conditions of financial domination. His approach remains relevant, and provides useful help in defining the financial criteria for major international financial centres:

- Ample capital resources available for lending abroad: either owned by domestic agents or held in deposit; it may be short term or long term funds.
- An adequate banking organization, i.e. foreign banks located in the country, international connections of the banking system, experience, technical skills, reputation . . .
- Freedom of the financial market: No exchange control or legal restrictions.
- An investing public willing to acquire and keep foreign securities;
- A stable currency;
- A good money market to secure a steady flow of funds;
- An active foreign exchange market enabling the transfer of funds and the covering of exchange risks at minimum costs, with good connections with foreign centres.<sup>20</sup>

The value of some of these criteria is timeless, especially regarding the exchange rate regime. In 1931, the stability of the currency was considered to be a dramatic question, as the pound was threatened by the flows of gold towards France following stabilization by Poincaré.<sup>21</sup> Conversely, after the fall of the Bretton Woods system and the end of the gold standard, New York and London still remained the major IFCs. This endogenous approach to the financial system covers the main questions we need to answer. What we can learn from this list is that a mix of 'efficient' but different financial institutions could be the key to success: the banking system; stock exchanges; money markets; and the monetary system; are the main issues. As we have seen above, among the multiple criteria defining the attractiveness of a financial centre, some are more important than others, and some have been investigated more thoroughly than others. One of the main aims of this book is to consider to what extent international competition between IFCs has been in part due to their different forms of organization and functioning. More generally, our aim is to examine the comparative advantage of various financial centres by paying attention to their evolution over time. Our study is focused on the importance of financial factors, and among them the role of the financial institutions: markets; banks; intermediaries, as well as the regulating authorities.

### A methodology

In this book we favour a direct comparative approach. Previous works on the same topic have tended to be either simple juxtapositions of case studies, or global transnational studies that ignore the historical context of individual countries.<sup>22</sup> However, the development of stock markets during the nineteenth century took place within a competitive environment, whether in one country (for example, in Germany), one city (for example, New York), or on the world stage (London, Paris, New York, Berlin).

The studies collected here focus on four main issues. First, the role of market organization includes the co-existence of an official and an unofficial market; financial innovations (products, processes, institutions); and the efficiency of the stock markets' operators—single or dual capacity, monopoly or competition. The width and depth of the secondary market and its placing capacity are fundamental in attracting both issuers and investors, as is the existence of a short-term market. Specialization may be an advantage: a market in shares, the government bond market, commercial bills, and so on.

The second issue involves the weight of regulation, and financial stability. We can make use of the following terms in appreciating the attractiveness of an IFC: information transparency; protection of investors; shareholders' rights—and their effects on the working of markets. The relationships between the financial market and the state, both as an actor and as a lawmaker, will be a central point, as well as the independence of supervisory authorities and their coercive power.

Third, the question of issuing costs and returns on investment in each of these markets should not be neglected, particularly costs and returns according to the type of issue, and rates of return of securities quoted on several markets. And, of course, the effect of taxation on national and foreign securities has to be taken into account.

Finally, according to our chosen definition of a financial centre, the nature of the banking system is a major issue. The nationality of a bank that expands across the globe—at least the location of its headquarters—determines the direction of benefits and of capital flows towards its domestic centre. Depending on the differing patterns of financial systems, banks are at the beginning and at the end of financial circuits. In particular, the book focuses on the market power of banks, whether as principals or agents, their capacity to provide liquidity to the market and their international networks for issuing, placing, or investing money abroad.

These criteria could help our understanding of how, at one moment, a financial centre became one of the leading players, retained predominance, or declined. Or, alternatively, how a 'late comer' could emerge and be placed in the top ten, despite the relative inertia of financial centres.

## Historical perspective above all

Since we are historians, we are interested in highlighting the role of crisis and war in the rise or decline of international centres. A short or medium-term perspective, rather than a long-term approach, seems adequate for explanation. Inflation, depression, and war could have intensified or distorted financial relationships; hence the attractiveness of one or another financial centre could change over time. That is why we have chosen a chronological division for the book, which reflects the great ebb and flow of international capital over two centuries. As a preliminary chapter to the book, Ranald Michie presents a new and stimulating approach to the international financial scene, questioning the idea that there was significant competition between stock exchanges throughout the twentieth century. He argues that the ‘Battle of the Bourses’ was usually very muted. The change occurred from the 1990s onwards, with the development of electronic trading platforms and then with the arrival of ‘dark pools’ at the beginning of the twenty-first century. He also suggests that financial centres were able to survive when they were able to reinvent themselves: the traditional advantages of former centres survive not only thanks to inertia, but thanks to reactivity.

### Competition and rivalry during the first globalization (1870–1914)

The first globalization occurred under a gold standard regime, within which European leading banks competed internationally in extending credit. The attractiveness of a financial centre could be demonstrated by the presence of various European merchant or universal banks.

At the very beginning of the nineteenth century, the future biggest IFCs were not yet entirely established, and a multipolar scene offered possibilities to newcomers. Stefano Ugolini shows that the internationalization of the Brussels capital market from the 1850s onwards increased dramatically thanks to the action of two universal banks. He re-evaluates the role of the central bank, which provided the necessary infrastructure for the internationalization of the Belgian franc.

South America was one of the preferred destinations of European bankers; and although this topic has already been widely studied, Carlos Marichal here introduces new material by pointing out the importance of Argentine merchant bankers’ links with British, German, and French banks in explaining the mechanisms for launching new issues in European markets. The local networks of international banking are here outlined to explain why Latin American issues could have been attracted to particular European stock exchanges.

There is clear evidence of the significance of the international role of the banking sector in determining the direction of capital flows.

During the Russian Industrial Revolution, companies and local authorities also began to attract foreign financial resources, through international banking and issuing. St Petersburg Stock Exchange was, at the time, among the top ten world bourses, and the most important in the Russian Empire. Leonid Borodkin and Gregory Perelman have constructed a stock index of leading industrial companies in the final decades before the First World War. This index is similar to the Dow Jones, and highlights both the financial integration of Russia and the dynamism of the contemporary Russian economy.

### **Financial integration and lost opportunities**

At the end of the nineteenth century the United States was in a position to compete with the two 'older' countries, Great Britain and France, since its Gross National Product (GNP) had overtaken theirs. But the level of economic development and widespread trading were not a sufficient condition for it to become an international financial centre. The resulting absence of a discount market and the lack of an acceptance market, such as that in London, increased New York's dependence on the City of London. Looking at the London Stock Exchange as the centre of global finance from 1900 onwards, Leslie Hannah reconsiders the way financial statistics for equities are compiled, and provides accurate definitions of domestic, international, and foreign equities, including for British overseas companies. His thorough study raises the fact that the securities/GDP ratio is now considered to be a viable basis for the comparison of stock exchanges, and he re-evaluates the true size of the London market on this basis. The comparison with the US financial system is also revisited, and Leslie Hannah and Richard Sylla both provide a new and comprehensive perspective upon the two major financial centres.

By comparing the leading financial systems, Richard Sylla provides a new explanation of New York's standing at the beginning of the twentieth century; he also revises American financial history by establishing a new data series and placing it in a new perspective. Consequently, the entire organization of the domestic financial system—including central banking, supervision, and the organization of capital market—does not appear to be a decisive factor in reaching a high level of efficiency and attracting international capital flows. The USA made a smooth transition to financial leadership because the country was ready to do so before 1913.

The First World War was a major disruption for world finance. During the interwar period there was no dominant IFC, London and Paris being quite weakened following the First World War and unable to secure their former supremacy. Concerning this period, Charles Kindleberger wrote, 'No new

centre rose to challenge the old ones. [...] The most promising candidate for the position [New York] was unable to fulfil the responsibilities.<sup>23</sup> After the war, monetary disorders together with political and diplomatic alliances played a major role in the direction of capital flows. As an example of this, Ileana Răcianu studies the role of the Banque de France and the Bank of England in the stabilization of the Romanian currency in the late 1920s. Thanks to the opening of archives, she gives an external perspective on the fact that, while France agreed to provide economic and monetary assistance to Romania, England did not. The French strategy was clearly aimed at limiting the influence of England in Eastern Europe by monetary and financial means.

At the same time, in France, a collective wish emerged, which sought to make Paris a major international financial centre—as it had been before the First World War. But the years 1928 to 1930 appear to have been a lost opportunity for French bankers to maintain their international position. Laure Quennouëlle-Corre seeks the principal reasons that could explain the sudden collapse in significance of the Paris Bourse, identifying the role of taxation and regulation on foreign issuers and operators as issues preventing the revival of Paris as a leading IFC for several decades. These factors were reinforced by the unstable interwar context, the Great Depression, and the end of the gold standard.

### Reopening and new competitors (1945–1980)

After 1945 the pre-eminence of the United States in international capital markets was quickly established, and it remained for decades unchallenged as the world financial centre. Under the Bretton Woods system, and as the growth of Western economies and of international trade increased the need for ever greater funds, important centres began to reopen, such as the continental European capital markets, while others, like Hong Kong, entered the international market.

From the 1960s, the reopening of the global capital market reinforced the position of London, thanks to the Eurodollar market, since the ‘invasion of/escape to’ Europe by American banks was directly linked to US regulations.<sup>24</sup> André Straus provides a comprehensive picture of the geographical structure of international capital flows at the very beginning of the European Economic Community, and compares European capital markets and Anglo-American ones. He outlines the paradox of a European capital market without an international financial centre, which American business fostered for its own ends.

Hong Kong’s particular story as both a regional and international financial centre has already been extensively described by Catherine Schenk. In this book, and with the help of new archival data, she outlines how the British legal

tradition, an open regulatory framework, and low tax rates aided Hong Kong to re-emerge as an IFC during the 1960s. Although it had no central bank, it remained highly attractive thanks in particular to the weaknesses of the other regional centres, and also to government policy towards the banking system.

Apart from the diversity of approaches here, some important common features have emerged as a result of our comparative analysis.

### WHAT HAVE WE LEARNED? NEW DATA AND LONG TRENDS

This book does not pretend to provide a new hierarchy for the major international financial centres. We have, however, sought a better understanding of the way in which they work, and of the reasons leading to their success or failure. Throughout the book, it appears that most of the factors upon which we wanted to focus—the nature of the banking system, market organization, the regulatory burden—played an important role in the direction of international capital flows throughout the nineteenth and twentieth centuries.

The discussion of sources and data emerges as an important theme—international comparisons of IFCs being complex matters—whether historically or in the present. Sylla extends discussion of Rajan and Zingales' data on the US financial system by exploring more precisely how the size of the banking system can be measured.<sup>25</sup> Investigation of the data for the London Stock Exchange, and the degree of its internationalization compared to that of the US before 1914 recurs as a point of divergence between several authors. Sylla and Hannah provide a discussion of this complex subject. The resulting measure varies according to the way in which data are used. It depends on the choice of the criteria: equities or just stocks? By what criteria can we define 'domestic' securities: ownership; registration; taxation; or location of headquarters? Hannah sheds light on the difficulty of finding an appropriate definition of foreign or overseas companies, and questions the relevance of cross-country comparison based on the ratio of equities to GDP for the evaluation of the size of a capital market. Michie presents new data on cross-listed equities and concludes that, prior to 1914, there was a lower level of internationalization of stock exchanges than is generally acknowledged. Hannah and Quennouëlle-Corre also show that 'over-the-counter markets' need to be taken into account to provide accurate and relevant data on the level of activity of stock exchanges.

Coming to the main findings of the book, the first point that has to be made is that, here as elsewhere, 'early-comers' retain an advantage. London is a clear case of a centre that has been one of the main IFCs since the beginning of the

nineteenth century. By contrast, consider the decline of Amsterdam, the leading stock exchange during the seventeenth and eighteenth centuries: it seems that while being an early-comer can be advantageous, it is possible to be too early, and simple historical precedence is, therefore, not a sufficient condition to remain in the first rank. Other causes have to be found. Macroeconomics is undoubtedly an important basis for developing a broad explanatory foundation. London overtook Amsterdam thanks to its powerful economy and extensive trading links, which enhanced the development of its banking system, whereas the need for significant funds increased dramatically in developed countries (due to industrial revolutions). Besides that, a strong currency and a strong central bank have been considered to be major advantages during the gold standard era. This can explain why the two major nineteenth-century economies, Great Britain and France, became the two leading IFCs in this period: both countries were dominant from a monetary, economic, and financial point of view. By contrast, when the Banque de France ceased supplying specie payments after the Franco-Prussian War of 1870, Paris ceded its financial supremacy to London.<sup>26</sup> Conversely, being a creditor country is not a necessity, since the US financial system has been dominant since the Second World War, while operating a significant balance of payments deficit. With or without a gold standard regime: all that is needed is just good currency!

Although it might appear remote from our purpose, the question of concentration and geographic position also require re-evaluation. How are we to explain the relative position of USA or Germany on the world stage without considering their historically decentralized organization? How can we understand the success of Hong Kong if its regional standing is not taken into account? Did this kind of geographic circumstance have the same significance during the twentieth century, as time and space were being now continuously erased, with mergers of stock exchanges increasing? Yet, as globalization overwhelms capital markets, the weight of culture and language creating links across boundaries must not be forgotten; nationalism is still an important element in an investment decision or issuing process.<sup>27</sup> During the 1970s, Jean Labasse, a French geographer and banker, outlined different kinds of 'financial space' and explained in a very concrete way flows of capital throughout a country by reevaluating the role of urban geography and spatial systems.<sup>28</sup> More recently, geographers have more firmly established the importance of 'the economic geography of money' in explaining the reshaping of the financial landscape.<sup>29</sup> The geographical and sociological approaches to finance are still useful tools for historians: the importance of geographical location; the role of financial clusters; the role of social and professional networks inside a hub are here lent emphasis. In the long run, similar languages or cultures, and

geographical proximity, are constant relevant issues in the attraction of business and flows of capital.

On the other hand, the competitive advantage enjoyed by a concentrated capital market and the liquidity of the assets provided highlights the importance of location.<sup>30</sup> The degree of interdependence or dependency of financial centres—even during periods of withdrawal—has also to be taken into account, as it involves the connection between dominant centres and the periphery. Why were securities from the countries on the periphery attracted to an international centre? Economic geographers have also studied the issue of market segmentation in international equity markets, and the reasons why multiple overseas listings or delistings occur in different financial centres. This spatial perspective has been taken into account in different chapters, even though it is not a central issue for the book. The topic cannot be neglected; although space and time recently appear to have been abolished by new technologies, the need for face-to-face contact remains important.

Finally, the political dimension can modify the rules of competition, and from an historical point of view cannot be neglected. The financial history of Germany is partly the outcome of political decisions, including Prussian domination since 1870, and the associated emergence of Berlin as domestic centre, which was then erased after the Nazi defeat in 1945.<sup>31</sup> Nationalism in institutions and diplomatic alliances can explain the choice to issue government bonds on a particular market. Thanks to the political links between France and Russia, Paris has been the recipient of Russian loans over several decades.<sup>32</sup> However, could financial relationships between the Paris Bourse and the St Petersburg Stock Exchange be partly explained by other features? The Romanian loans after the First World War can be considered from the same perspective. This secular trend is more obvious during the ebb of globalization, but still relevant to an explanation of international capital flows over the long run.

To sum up, it has to be said that resistance to internationalization could essentially be due to the political and diplomatic framework, to national bias or to domestic regulation. Conversely, the degree of attractiveness of financial centres in a longitudinal analysis is due to a variety of endogenous and exogenous factors that have changed over time, according to the historical context. Financial centres have been competing with, as well as complementing, each other—to an extent, at least, partly induced by the geographic, political, and monetary areas within which they have operated; yet, these relationships have also resulted from specific institutional practices related to transactions.

## NOTES

- \* I should like to thank Youssef Cassis for his helpful comments on an earlier draft of this text.
1. G. Jones, 'International Financial Centres in Asia, the Middle East and Australia: A Historical Perspective', in Y. Cassis (ed.), *Finance and Financiers in European History 1880–1960* (New York, 1992), ch. 21.
  2. See, for example, C. R. Schenk, 'International Financial Centres 1958–1971', in S. Battilossi and Y. Cassis (eds), *European Banks and American Challenge* (Oxford, 2002), 74–99.
  3. R. C. Michie is, above all, the best specialist on the history of stock exchanges. See his impressive bibliography and his contribution to the book.
  4. C. Kindleberger, *The Formation of Financial Centers: A Study in Comparative Economic History*, (Princeton, NJ, 1974).
  5. H. C. Reed, *The Pre-eminence of International Financial Centres* (New York, 1981); and R. Roberts (ed.), *International Financial Centres*, 4 vols (Aldershot, 1994).
  6. Y. Cassis, *The Capitals of Capital. A History of International Financial Centres, 1780–2005* (Geneva, 2005).
  7. Ronald H. Coase, 'The Problem of Social Cost', *Journal of Law and Economics*, 3.15 (1960), 1–44. For instance, on the contractual theories about insider trading, see L. N. Beny, 'Insider Trading Laws and Stock Markets Around the World: An Empirical Contribution to the Theoretical Law and Economics Debate', *The Journal of Corporation Law*, Working Paper, (University of Michigan, 2003), 238–300.
  8. E. Glaser, S. Johnson, and A. Schleifer, 'Coase versus the Coasians', *Quarterly Journal of Economics*, 116.3 (2001), 853–1229.
  9. See, for instance, R. La Porta, F. Lopez-de-Silanes, A. Schleifer, and R. W. Vischny, 'Legal Determinants of External Finance', *Journal of Finance*, 52 (1997), 1130–50. The recent US movement, 'the Tobin project', is trying to fight this trend.
  10. See the empirical study of R. Levine, 'Bank-based or Market-based Financial Systems: Which is Better?', *Carlson School of Management*, Working Paper, (2000); A. Demirgüç-Kunt, L. Laeven, R. Levine, 'Regulations, Market Structure, Institutions, and the Cost of Financial Intermediation', NBER Working Paper 9890, (2003).
  11. La Porta et al., 'Legal Determinants'.
  12. See R. La Porta, F. Lopez-de-Silanes, A. Schleifer, 'What Works in Securities Laws?', *Journal of Finance*, 61 (2006), 1–32.
  13. See, for example, the literature about the German supervision. It describes how the stock markets have been strictly supervised since the end of the nineteenth century: H. C. Emery, 'The Results of the German Exchange Act of 1896', *Political Science Quarterly*, 13.2 (1898), 286–320. And C. Parker, 'German Banks and Stock Exchange Speculation', *Proceedings of the Academy of Political Science in the City of New York: The Reform of the Currency*, 1.2 (1911), 449–56.
  14. The Pecora Commission was created in 1933 to investigate the defaults and abuses that might explain the 1929 financial crisis. Its impressive hearings laid the basis for the way in which the NYSE dealt with the practices of stock exchanges and

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investment banks. It led to the Securities Act in 1933 and the Securities Exchange Act in 1934, and then to the creation of the Securities Exchange Commission.

15. *Brady Report*, (January 1998).
16. L. Davis and Larry Neal, 'Micro Rules and Macro Outcomes: The Impact of Micro Structure on the Efficiency of Security Exchanges, London, New York and Paris, 1800–1914', *American Economic Review*, 88.2 (1998), 40–5.
17. R. C. Michie, 'London and New York Stock Exchanges, 1850–1914', *Journal of Economic History*, 46.1 (1986), 171–87.
18. On the role of the over-the-counter market in the United States, see, for instance, B. Biais and R. Green, 'The Microstructure of the Bond Market in the 20th Century', Working Paper 2005 online; and M. O'Sullivan, 'The Expansion of the U.S. Stock Market, 1885–1930: Historical Facts and Theoretical Fashions', *Enterprise and Society*, (2007).
19. E. Balleisen and D. Moss (eds), *Governments and Markets. Toward a New Theory of Regulation* (Cambridge, 2010), 559; and the first chapter by J. E. Stiglitz, 'Government Failure vs Market Failure'.
20. P. Einzig, *The Fight for Financial Supremacy* (London, 1931), 144.
21. The responsibility of France in the fall of the pound was the subject of violent disagreement between France and Great Britain, on which Paul Einzig was one of the more aggressive reporters.
22. Except Y. Cassis and E. Bussière (eds), *London and Paris as International Financial Centers in the Twentieth Century* (Oxford, 2005).
23. Kindleberger, *The Formation*, 61.
24. R. Sylla 'United States Banks and Europe: Strategy and Attitudes', in Battilossi and Cassis (eds), *European Banks and the American Challenges*.
25. R. Sylla, 'Schumpeter Redux: A Review of Raghuran G. Rajan and Luigi Zingales' Saving Capitalism from the Capitalists', *Journal of Economic Literature*, 44 (2006), 401.
26. W. Bagehot, *Lombard Street: A Description of the Money Market* (New York, 1873).
27. The economists call it 'domestic bias' or 'home bias': domestic investors privilege their local markets. See, for instance, T. Gehrig, 'An Information Based Explanation of the Domestic Bias in International Equity Investment', *The Scandinavian Journal of Economics*, 1 (1993), 97–109.
28. J. Labasse, *Les Capitaux et la région* (Paris, 1955); *L'Espace financier* (Paris, 1974).
29. For a complete survey of geographers' work on financial location, see R. Martin (ed.), *Money and the Space Economy* (Chichester, 1999), ch. 1.
30. See T. Gehrig, 'Location of and Competition between Financial Centers', in X. Freixas, P. Hartmann, and C. Mayer (eds), *Handbook of European Financial Markets and Institutions* (Oxford, 2008), 619–42; 'Cities and the Geography of Financial Centers', in J.-J. Thisse and J.-M. Huriot (eds), *The Economics of Cities* (Cambridge, 2000), 415–45.
31. See Holtfrerich, *Frankfurt as a Financial Centre* (München, 1999).
32. R. Girault, *Emprunts russes et investissements français en Russie 1887–1914*, 2nd edn, (Paris, 1999), 618.