In the last analysis, global business comes down to international capital flows. And international capital flows require an intermediation process, which is provided by the financial institutions and markets gathered in the leading international financial centres. In the course of the last two centuries, financial institutions and markets have thus played a decisive role in the making of global business. In many ways, they could be seen as having enabled it. International financial centres provide a convenient vantage point from which to consider this role. They can be defined as the grouping together, in a given urban space, of a certain number of financial services; in a more functional way, they could be defined as a place where intermediaries coordinate financial transactions and arrange for payments to be made (Kindleberger, 1974; Roberts, 1994). A financial centre’s influence can be limited to a single country, it can extend to a region of the world, or it can be truly global and provide financial facilities to the entire planet. The makers of global business are thus the financial institutions and markets – and those who run them – located in the handful of truly international, indeed global financial centres – though the global significance of lesser centres should not be entirely dismissed.

One of the particular features of international financial centres is the high concentration of global players that can be found on a fairly small geographical area – a square mile in arguably the most global of all, the City of London. Nowhere else has it ever been possible to find such a great number of multinational enterprises within a few hundred yards of one another. Banks have of course been the most significant – they include the head offices of domestic banks with a network of branches in other countries, as well as the branches, often of considerable dimension, of foreign banks. The same applies to other financial institutions, in the first place insurance companies. Moreover, leading multinational companies in other sectors (natural resources, manufacturing) have usually established their head office in an international financial centre – a trend that has increased in the course of the twentieth century. For their part, capital markets have been no less global, but in a different way, by issuing securities on behalf of borrowers from across the world, to investors from across the world, with the possibilities to trade them in a single exchange and arbitrate between exchanges.

The classic work on the history of international financial centre remains Youssef Cassis’s *Capitals of Capital*, which provides an analysis of the rise and decline of the leading centres from the late eighteenth to the early twenty-first century (Cassis, 2006, 2010). The story has been further updated to take stock of the situation ten years after the crisis (Cassis and Wojcik, 2018).
Individual financial centres have been unevenly studied. While the history of the City of London is by now fairly well known (Michie, 1992; Kynaston, 1994, 1995, 2000, 2001), that of New York (Geisst, 1997; Fraser, 2005), Paris (Quennouëlle-Corre, 2015), or Berlin and Frankfurt (Pohl, 2002; Holtfrerich, 1999) offers scope for investigation on specific aspects of their development as well as broad syntheses; and there is no history of Tokyo as a financial centre available in English. Information and analysis on other centres, especially their very recent history, can be found in Richard Roberts’s now slightly dated four volumes compendium (Roberts, 1994). Banks and capital markets have of course been extensively studied at both domestic and international levels. More specific works are available on multinational banking, with Geoffrey Jones’s definitive study on Britain (1993), and more patchy works on other countries (Jones, 1990; Kobrak, 2008). On the international securities market, Ranald Michie’s masterly study (2006) can be complemented by some of the essays gathered by Quennouëlle-Corre and Cassis (2011) on financial centres and international capital flows. A recent *Oxford Handbook* (Cassis et al., 2016) presents the state of the art in banking and financial history, including on issues directly related to the making of global business, such as multinational and transnational banking, securities markets, international capital flows, or sovereign defaults.

This chapter will look at the makers of global business from the perspective of international financial centres, with particular attention to the multinational banks and global capital markets that have been at the heart of their activities. It will concentrate on the leading financial centres, which have been home to global business in the financial sector, and whose activities have enabled the emergence of global businesses in all sectors. It will follow a chronological order, with one globalisation of the world economy at each end – the first, starting in the 1870s, and the second a century later. The period in between, from the 1930s to the 1970s, was indeed a period of receding international capital movements and reduced activities of international financial centres, yet this did not herald the end of global businesses.

**The first modern globalisation, 1870s–1914**

Foreign investment began to grow substantially from the mid-1850s, the capital stock invested outside its country of origin going from just under $1 billion in 1855 (it was at the same level 30 years earlier) to $7.7 billion in 1870. It then rose to $23.8 billion in 1900 and to $38.7 billion in 1914 (Obstfeld and Taylor, 2004). Throughout these years, Britain was the largest exporter of capital (42 per cent in 1913), followed by France (20 per cent), and, later in the nineteenth century, Germany (13 per cent). The United States became a capital exporting country by the turn of the twentieth century; while small European countries (Belgium, the Netherlands, and Switzerland) exported substantial amounts of capital, especially when measured as a proportion of their GDP (gross domestic product). Global financial institutions and markets developed in the financial capital of these countries and enabled the development of global business across the world.

In the four decades preceding the First World War, the City of London was the world’s leading financial centre (Michie, 1992; Kynaston, 1994, 1995; Cassis, 2006). Paris was a strong challenger in the 1850s and 1860s, but the defeat of France by Prussia in 1871 put an end to Parisian ambitions. London’s position reflected Britain’s dominant position in the world economy, even though it had been overtaken by the United States in terms of GDP by the early 1870s (Maddison, 2001). Britain’s position rested on the leadership it retained in foreign trade, services and finance, and the role of the pound sterling as the cornerstone of the international monetary system, the gold standard, with the Bank of England, to use Keynes’s words, as its ‘conductor’ and whose leadership the other central banks were prepared to follow in order to maintain monetary stability (Eichengreen, 1996).
The City of London offered an unrivalled range of financial services on a global scale. First, the bulk of world trade was financed through the medium of bills of exchange drawn on London. And, second, with nearly 50 per cent of foreign capital held by British investors, London was the main centre for the issue of foreign securities, on behalf of governments and large corporations, above all railway companies. These two essential functions were carried out by a group of private banking houses known as merchant banks – because of their former and in some cases persisting links with international trade (Chapman, 1984). The issuing business, the most prestigious activity in international business, was the preserve of the most select houses (Rothschilds, Barings, Morgan Grenfell, Hambros, Schroders, and a few others, including Kleinworts, the leading accepting house). The accepting business (in other words guaranteeing the payment of a bill of exchange when it came to maturity) was the bread and butter of a growing number of firms, possibly as many as 105 in 1914, several of them from abroad. Another group of merchant houses, described as ‘investment groups’ (Chapman, 1992) or ‘trading companies’ (Jones, 2000), moved towards a third line of global financial business and opted to organise and finance the often vast shipping, commercial, financial, and manufacturing operations carried out abroad and in the empire by their branches and correspondents – firms like Jardine Matheson, Mackinnon Mackenzie, Balfour Williamson, or Antony Gibbs, to quote but a few – and were also involved in accepting and issuing activities.

These merchant banks and investment groups were mostly long-established family-owned partnerships, operating at the very heart of the world’s financial capital. The new joint stock banks, which had emerged in the mid-nineteenth century (Lloyds Bank, Midland Bank, London County and Westminster, National Provincial Bank, to name but the four largest in 1913), confined themselves to deposit banking activities within the domestic economy. But they provided the cash credit required by the City’s international operations. However, another group of newly formed joint stock banks, known as overseas banks (London and River Plate Bank, Hong Kong and Shanghai Banking Corporation, Chartered Bank of India, Australia and China, Standard Bank of South Africa, and others) were directly involved in international finance. They usually had their head office in London (one exception was the Hong Kong and Shanghai Banking Corporation), but operated a network of branches in the formal and informal empire, providing facilities to merchants, especially foreign exchange, and banking services to the well-off members of the local community. While the number of overseas banks doubled (from 15 to about 30) between 1860 and 1913, the number of branches increased more than tenfold, from 132 to 1,387 (Jones, 1993).

As a result of its financial predominance, the City attracted large foreign banks that came there to seek profitable business opportunities. Crédit Lyonnais opened a branch in 1870, followed by Deutsche Bank in 1873, and during the ensuing decades most of the large foreign banks opened a branch in the City. They numbered 30 in 1913, belonging to 12 different countries, and included the major French and German banks. They were particularly strong in the field of discounting and acceptances, less so in the market for foreign loans, and participated in issue syndicates merely as members (Cassis, 2005).

Subscribers to the foreign issues floated by merchant bankers and other issuing houses were primarily individual investors. However, institutional investors started to make their mark. Insurance companies expanded considerably during this period and became more active investors with, in particular, foreign investment making up 40 per cent of their portfolio in 1914 – up from 7 per cent in 1870. And a new financial institution, investment trusts, emerged in the 1870s and matured in the 1890s and 1900s. Their assets reached £90 million by 1913 (as against £500 million for insurance companies), mainly invested in foreign stock, primarily American.
The City of London’s other major activity as an international financial centre was the London Stock Exchange – a secondary market where the securities issued on the primary market could be negotiated. The nominal value of the securities listed there went from £2.3 billion in 1873 to £11.3 billion in 1913 – in other words, more than the New York Stock Exchange and the Paris Bourse combined (Michie, 1999). As evidence of its highly cosmopolitan character, foreign stocks, which represented between 35 and 40 per cent of the total in 1873, exceeded 50 per cent from 1893 onwards. By 1914 one-third of all securities in the world were quoted on the London Stock Exchange, with an increasing number of them quoted on at least one other centre, primarily New York. This gave rise to international arbitrage operations (Michie, 1987).

In addition, the City hosted major commodity markets, such as the London Metal exchange (copper, tin, lead, zinc, and silver) and the Baltic Exchange (shipping).

The City also provided specialised professional services, especially legal and accounting, whose leading firms soon expanded abroad to follow their clientele or to build up a new one. Price Waterhouse, for example, opened a branch in New York in 1890 and another in Chicago in 1892, where its business took off very quickly (Jones, 1996). Finally, the City’s contribution to the making of global business was partly reflected in the presence of the headquarters of a multitude of multinational enterprises for which it had been the main source of financing: shipping companies (see Harlaftis, in this volume); foreign and colonial railway companies; natural resources, including oil firms (see Boon, in this volume), like the Shell Transport and Trading Company; not to mention the London branches of companies established abroad but whose financing was largely provided by the City, such as the North American railways or the South African gold and diamond mines, like De Beers.

Such a concentration of global financial services and multinational financial companies could only be found in London. Paris has been accurately described by Alain Plessis as a “brilliant second” (2005). In the absence of any significant accepting business, its strength lay above all with its long-term capital market, especially for foreign securities, which was second only to London. However, while Britain’s foreign investment was spread worldwide (with a distinct preference for the two Americas), French investors expressed a more marked preference for Europe, including Russia, as well as for the Middle East. Until the negotiations of the war indemnity loans in 1871–72, the issuing business, especially on behalf of foreign governments, had remained in the hands of the Haute Banque (Rothschild, Fould, Mallet, Hottinguer, Sellière, and a few others), a group of old-established banking houses akin to the London merchant banks. Thereafter, it was taken over by the new joint stock banks, in the first place the investment banks (Banque de Paris et des Pays-Bas). The Haute Banque remained influential and some of its members turned themselves into large investment groups. The Rothschilds, in particular, acquired major stakes in non-ferrous ores (especially in Spain) and in oil (Russia) – in addition to their banking business (Ferguson, 1998).

Unlike their British counterparts, the large French commercial banks (Crédit lyonnais, Société générale, Comptoir national d’escompte de Paris) were involved in international finance, though more in the placing than the issuing of foreign loans. They also established a network of foreign branches (Crédit lyonnais had 20 in 1913 and Comptoir d’escompte 28, not including those in the colonial empire). Overseas banks were less prominent than in the City of London, owning partly to competition from the commercial banks but mainly to France’s weaker presence in the world. However, the most important among them (Banque Impériale Ottomane, Banque de l’Indochine) were forces to be reckoned with in international finance. Paris also attracted foreign banks, around 18 in 1913, more than any other centre bar London (Cassis, 2006). Finally, befitting its position as a world leading financial centre, Paris had a vibrant financial market. Though smaller and more regulated than the London Stock Exchange, the Paris Bourse...
Banks and capital markets

was no less international, with a little over half of the stocks officially quoted having been issued
by foreign governments or companies, and the proportion might well be higher if one includes
the unofficial market, the Coulisse (Quennouëlle-Corre, 2015).

The bulk of global business took place in, or was financed through, London and Paris. Some
of the international financial centres ranked behind them had a global outreach but were fairly
small (Brussels, Amsterdam, Zurich); the others were fairly large but more domestically than
internationally oriented (Berlin, New York).

Berlin’s rise to financial prominence was a natural consequence of Germany’s growing eco-

nomic weight in the decades following its unification in 1871. More than anywhere else, busi-
ness was dominated by the big banks (Deutsche Bank, Dresdner Bank, Disconto-Gesellschaft,
Darmstädter Bank). They were universal banks, engaged in both commercial and investment
banking, and controlled most international financial transactions. They were also multinational
banks, with a number of foreign branches, as well as subsidiaries established to conduct business
in less developed countries. The Deutsche Bank, for example, created the Deutsche Über-
seeische Bank (active in Latin America) and the Deutsch-Asiatische Bank, the latter in conjunc-
tion with the Disconto-Gesellschaft and Bleichröder, a private bank (Hertner, 1990). German
universal banks clearly supported German global businesses, especially in manufacturing indus-
ty. Interestingly, the electrical giants Siemens and AEG, which had close business and personal
links with the big banks, also had their head office in Berlin. However, as a financial centre,
Berlin was not in a position to rival seriously London or even Paris, if only because Germany
invested far less capital abroad than Britain and France did. Significantly, only five foreign banks
had a branch in Berlin in 1913 – though another nine could be found in Hamburg, a more
dynamic trade centre (Cassis, 2016). Moreover, the Berlin Börse was strictly regulated in order
to curb speculation and combat fraud – the law of 1896 considerably limited forward trans-
actions, and actually prohibited them on the securities of mining and manufacturing companies.
As a result, speculative transactions, which represented the bulk of stock-market business, moved
out of Germany, towards Amsterdam and London in particular (Goëmmel, 1992).

The financial capitals of small advanced economies could not compete on all fronts. They
had to specialise in certain niches where they had a competitive advantage, and which could
play a significant role in the development of global business. Brussels ranked first amongst these
centres on account of the size of its largest bank, the Société Générale de Belgique, its Stock
Exchange, and the presence of both multinational and foreign banks. More importantly, Brus-
sels was the main centre for the financing of the tramways and then the power industry, mainly
obtained through finance companies set up by the banks, and which usually took the form of
holding companies (Société Générale Belge d’Entreprises Electriques, Sofina, Société Générale
des Chemins de Fer Economiques). Brussels was ideally placed to host the headquarters of these
firms, owing to the plentiful Belgian domestic savings that preferred this type of investment to
foreign government funds, to the not very restrictive legislation on companies, especially in
fiscal matters, and finally to the country’s neutrality, enabling these companies to attract foreign
– mainly German and French – capital (Hausman et al., 2008). In the same way, finance com-
panies such as Elektrobank in Zurich, Indelec in Basel, or the Société Franco-Suisse pour l’Industrie Electrique in Geneva contributed towards developing the power industry via their
links with big German banks and electrical engineering companies (Paquier, 1998).

New York was in an altogether different position. It was the financial capital of the world’s
largest economy, yet its contribution to the making of global business was more as an entry
point for foreign funds than as a point of departure for capital exports. The situation started to
change in the early twentieth century: while remaining a net debtor until the War, the United
States had also become a significant holder of foreign assets – mainly foreign direct investment,
thus requiring a lesser involvement of the New York capital market. The leading Wall Street investment banks (JP Morgan, Kidder Peabody, Lee Higginson, Kuhn Loeb, Seligman, Speyer, and others), all family-owned partnerships, formed the cornerstone of New York’s financial centre, though they faced competition from the largest national banks, with the National City Bank in the lead (Carosso, 1970; Cleveland and Huertas, 1985). They were primarily involved in the domestic securities business (railway companies and later large industrial concerns), but had close links to foreign financial centres, above all the City of London, as they were instrumental in attracting foreign capital. Likewise, the international character of the New York Stock Exchange came from its attraction to foreign investors rather than the securities traded there. Finally, regulation also played its part in limiting the development of a global banking business in New York, as national banks – but not trust companies – were forbidden to expand abroad until 1913; and the branches of foreign banks (15 in 1913) could not collect deposits and issue loans, though they could take part in financing foreign trade and operate on the foreign exchange market (Wilkins 1989).

Wars, depression, and regulation, 1914–1973

The First World War did not put an end to capital exports. Between 1914 and 1918, debts totaling nearly $20 billion – in other words an amount equivalent to the stock of British foreign assets on the eve of the war – were incurred among the Allies. However, these loans were essentially contracted between governments and did not activate the mechanisms usually associated with credit transfers between international financial centres. France, for example, borrowed $2.9 billion from the American government compared with only $336 million from banks, and $2.1 billion from the British government, compared with $625 million from banks, including the Bank of England. Only a few private intermediaries were involved in these operations, first and foremost the House of Morgan (Artaud, 1977).

Global financial transactions, both capital exports and trade finance, resumed after the War. Some $10 billion flowed from creditor to borrowing nations during the second half of the 1920s (Feinstein and Watson, 1995). One major difference with the pre-war years was the respective position of the financial powers. The great victor was the United States, which in a few years changed from a debtor country to a creditor country (having net private liabilities in excess of $3 billion in 1913 to net assets of $4.5 billion in 1919). Europe was no longer the world’s banker. Germany lost nearly all its foreign assets; France most of them, probably three-quarters of its assets in Europe, mainly in Russia; and Britain some 20 per cent, essentially the $3 billion worth of American stock that it was obliged to sell. Nevertheless, Britain remained the largest holder of foreign investment in terms of stocks, but no longer the largest capital exporter in terms of annual flows, because of the constraints weighing down its balance of payments.

This role was now devolved to the United States: during the second half of the 1920s, foreign issues placed in New York generally exceeded those offered in London by 50 per cent (Burk, 1992). This foreign investment mainly flowed to Europe (41 per cent), ahead of Canada (25 per cent), Latin America (22 per cent), and Asia (12 per cent), with a very marked preference for public bonds that made up more than 95 per cent of issues between 1920 and 1929. Investment banks thus became more engaged in global finance, and J.P. Morgan, the undisputed leading international house in the 1920s, derived enormous prestige from its position at the hub of the world of business and politics, particularly in the field of financial diplomacy, not least as the lead manager of the Daws Loan. Another house, Dillon Read was particularly active in issues on behalf of large German companies (Carosso, 1970). The number of overseas branches of American banks increased significantly following the Edge Act of 1919 – from 26 in 1913 to
180 in 1920. But the number had fallen back to 107 by 1925, as American banks were quick to retreat to their national territory after making some heavy losses (Wilkins, 1999). Perhaps even more tellingly, all the major foreign banks now tried to establish a branch there (they numbered 26 in 1929) while others were represented by a subsidiary, usually set up jointly with another bank. And foreign capital continued to be invested in the United States, primarily through New York, spurred by the bullish trend of the New York Stock Exchange.

Did New York replace London as the world’s leading financial centre? The point is debatable, but the answer is probably not. If London had to cede first place to New York in foreign issues, it soon regained its predominance in other activities, including acceptances, despite the success of acceptances drawn on New York thanks to the establishment of the Federal Reserve in 1913, which allowed national banks to accept bills of exchange. The pound remained the main trading currency, despite the difficulties in preserving this status and strong competition from the dollar (Eichengreen, 2012). And London was far ahead of New York in international banking, both as the home of British multinational banks and the host of branches of foreign banks. In spite of its new world role, New York remained as much an American as an international financial centre. Foreign issues, for example, played a secondary role to domestic issues and accounted for only 15 per cent of the total amount of new issues in the 1920s. This close interaction between domestic and international business was one of the main characteristics of New York when compared to London (Wilkins, 1999).

Paris fell behind London and New York. France was crippled by the weakness of the franc, capital flight, and reconstruction requirements. However, the stabilisation of the franc by Raymond Poincaré in December 1926 marked a turning point: Paris recovered part of its pre-war vitality, rekindling ambitions to compete with London and New York. Nevertheless, the French banks were weakened by the depreciation of the franc, the loss or closure of several foreign branches (in Russia, the Middle East, and Latin America) and the slow resumption of foreign investment – and didn’t recover their pre-war dominant position. Berlin paid the price of defeat and hyperinflation in 1923. Germany became the world’s largest capital-importing country in the 1920s, and it is mainly in this capacity that the German capital remained a significant international financial centre. Amsterdam, on the other hand, was commonly described in financial circles as Germany’s effective financial centre during the years of inflation and hyperinflation (Houwink ten Cate, 1989). All the major banks set up there after the end of the War and were active on the foreign exchange market and later in the acceptance market, which enjoyed spectacular growth during the 1920s and established itself as the foremost in continental Europe. Zurich and the other Swiss centres (Geneva and Basel) played a lesser though not insignificant role in attracting foreign capital and redirecting it abroad – mainly to Germany (Cassis, 2006).

The Great Depression was a watershed in the history of global finance. Long-term capital investments almost completely stopped in the 1930s. New York saw its role as an international financial centre shrivel: foreign loans, which had been its speciality, fell to less than $300 million in 1931 – less than the issues offered in London – and to less than $100 million in 1932 and 1933. But the domestic capital market was also shaken. In London, foreign loans outside the empire ceased almost completely after September 1931, adding up to a mere £28.5 million between 1932 and 1938 – that is to say less than 3 per cent of the total amount of issues in London, as against 17 per cent for imperial issues (£186.7 million), which continued throughout the decade (Balogh, 1947). Britain’s imperial retreat thus did not entirely end London’s role in international business and finance. Overseas banks, for example, added another 1,000 branches to their worldwide, mainly imperial, network.

The crisis led to the introduction of regulatory measures, which in most countries – Britain was a notable exception – were to reshape the financial system. The most radical reforms were
enacted in the United States, in particular the Glass-Steagall Act of 1933, which decreed the complete separation of commercial banking activities from investment banking activities; the Securities Exchange Act of 1934, which created the Securities and Exchange Commission (SEC). Universal banking, on the other hand, survived in Germany, where the banking law of December 1934 made do with strengthening bank supervision and introducing some restrictions on long-term deposits and on banks’ representation on the supervisory boards of other companies (James, 1992).

The Second World War was different from the First if only because global financial activities had started to decline several years earlier. Moreover the state’s hold over the economy was stronger than it had been during the Great War, leaving hardly any opportunity at all for bankers and financiers to take in charge the large financial transactions required by the war effort. Capital transfers mainly took place within each of the two camps and consisted of state-to-state transactions, or exactions – the American lend-lease programme on the Allied side, the extensive use of resources from the occupied territories made by the Reich on the Axis side (Milward, 1977).

The golden age of economic growth, between 1950 and 1973, when annual gross domestic product (GDP) growth averaged 5 per cent in Europe and 8 per cent in Japan, was not accompanied by intense international movements of private capital. The regulations inherited from the 1930s and those established in the immediate post-war years, including exchange controls, contributed to financial stability but limited the expansion of global business and its financing by banks and capital markets. The largest capital transfers were undertaken by governments, state bodies, and, to a lesser extent, multilateral agencies like the International Monetary Fund or the World Bank. Between 1955 and 1962, foreign issues floated in New York barely reached $4.2 billion – a feeble sum compared with the $126.5 billion for domestic issues, or the $98 billion in economic and military aid granted by the United States to foreign countries between 1945 and 1952 (Nadler et al., 1955; Orsingher, 1964).

New York emerged as the world’s financial capital and remained unchallenged until the 1960s. Its position relied first and foremost on the role of the dollar as the Bretton Woods System’s reference currency. It also hinged on the influence of its financial institutions. New York’s commercial banks (National City Bank, Chase National Bank, Manufacturers Trust, Central Hanover Bank, Chemical Trust, and J.P. Morgan) had, as a group, become the world’s largest (Nadler et al., 1955; Cleveland and Huertas, 1985). They all had well-organised departments for their international business and most of them had a presence overseas – in 1955 seven American banks, mainly from New York, had a total of 106 foreign branches. The investment banks, for their part, had fallen back into line following the crisis, competition from commercial banks and the New Deal regulations (Carosso, 1970). Twenty-one foreign banks (belonging to 12 different countries) had ‘licensed agencies’ in New York in 1954, on top of which there were numerous subsidiaries of foreign banks registered as banks or trust companies. And the Federal Reserve Bank of New York played a key role in international finance as the correspondent bank in the United States for the main foreign central banks and governments (Nadler et al., 1955).

The New York Stock Exchange picked up again during the phase of economic expansion in the 1950s. It was still a market where mostly American stocks were traded, but in which traders from all over the world took part, giving it a truly international dimension (Geist, 1997; Roberts, 2002). Foreign issues were expensive and remained relatively limited: on the one hand, American capital transfers abroad were mainly carried out through governmental and international agencies; and on the other hand, the bulk of private capital exported – $5.4 billion between 1950 and 1954 – was made up of direct investment, with a new wave of expansion in American multinationals, several of which, like General Electric, Standard Oil Co. of New Jersey (later EXXON), or IBM, were constituent parts of New York’s financial centre where
their registered offices were located. Foreign loans denominated in dollars were, nonetheless, issued on Wall Street on behalf of large enterprises, foreign governments, and multinational institutions, like the European Coal and Steel Community, or ECSC (Mensbrugghe, 1964).

London’s position was considerably weakened after the war and its activities hampered by state intervention, in particular the restrictions on the movement of capital, controls over the distribution of credit, and bans on speculative stock market operations. Nevertheless, the City refocused on the Commonwealth and, particularly, on the sterling area, which enabled it to resume, in a more limited way, the role it had played on the world stage prior to 1914 (Michie, 1992; Kynaston, 2001). Paris’s international position after 1945 was a mere shadow of what it had been only some 30 years earlier. Even more than in Britain, the state’s grip ended up stifling the Parisian capital market, with foreign issues practically nil during this period (Quennouelle-Corre, 2015). In Germany, Frankfurt took over from Berlin as the country’s financial centre but remained a centre of national rather than international significance until the late 1970s (Holtfreter, 1999). Zurich was one of the rare financial markets, along with New York, to strengthen its international position, probably ranking third (together with Geneva, Basel, and to a lesser extent Lugano) behind New York and London, in the 1960s, as the Swiss markets quickly developed their role for accommodating and investing foreign capital, through international issues and wealth management (Iklé, 1970).

In a climate of state intervention and regulation, global business and finance resurfaced in the late 1950s with the advent of the Euromarkets. The Euromarkets are markets for transactions in dollars taking place outside the United States, free of American regulations. For various reasons, dollars started to accumulate in Europe, especially in London, in the 1950s – the cold war and the Soviet Union’s fears of having its dollar deposits frozen in the United States; the US overseas investment and growing payment deficit; banking regulations, especially Regulation Q, which put a ceiling on the rate of interests which US banks paid on domestic bank deposits.

The Eurodollar market, a short-term money market, was the first to develop, when London banks began to use dollars rather than pounds to finance third party trade, after the British government had banned the use of sterling instruments for such purposes following the sterling crisis of 1957 (Schenk, 1998; Battilossi, 2002). With the European currencies’ return to external convertibility in December 1958 and, from the early 1960s, the gradual relaxing of controls on capital flows, the Eurodollar market expanded rapidly. It was supplied mainly by American multinationals and by European central banks and provided credit on a worldwide scale and in hitherto unprecedented proportions, mainly to finance international trade and other short-term loans. From approximately $1.5 billion when it started in 1958, this market reached $25 billion ten years later and $130 billion in 1973 (OECD, 1996).

The Eurodollar market quickly gave birth to the Eurobond market, a long-term capital market using Eurodollars not only for bank loans but also for issuing dollar-denominated bonds, in London rather than in New York. The first Eurobond was issued in London in July 1963 by Siegmund Warburg, on behalf of Autostrada Italiana, a subsidiary of the state holding company IRI (Kerr, 1984; Ferguson, 2010). Eurobonds quickly proved very popular, especially as they were issued to bearer, which means that they were anonymous and exempt from withholding tax. The Eurobond market grew from about $250 million in 1963 to a yearly average of over $4 billion ten years later (OECD, 1996).

A third form of Euro credit – medium-term this time, lasting from three to ten years – developed in the mid-1960s, between short-term, mainly interbank, Eurodollar deposits, and long-term Eurobonds. These were international bank loans wholly financed by resources in Eurodollars and generally granted on the basis of floating interest rates. In view of the growing demand for these loans and the size of the amounts required, they took the form of syndicated
loans bringing several banks together (Roberts, 2001). Despite the risks associated with interest rate fluctuations, the borrower found this a more flexible source of funding than a bond issue. From barely $2 billion dollars in 1968, Eurocredits quickly swelled to exceed $20 billion in 1973 or more than four times the amount of Eurobonds (OECD, 1996).

The Euromarkets reshaped the world of international finance. They marked the start of the huge multinational expansion of American banks, which went from having 131 branches abroad in 1950 to having 899 in 1986, in addition to their 860 foreign subsidiaries. Europe was the preferred destination: by 1975 the eight largest American banks had set up 113 branches and 29 representative offices there, London alone having 58 of them (Huertas, 1990). European banks, especially British and French commercial banks, were also spurred into a new wave of internationalisation (Altamura, 2017). And the Euromarkets signalled the rebirth of the City of London, which quickly became their natural home. London was certainly well equipped for hosting these new financial activities – because of the age-old experience of its bankers, their expertise in international finance, and the diversity and complementarity of its institutions and markets. The positive attitude of the British monetary authorities, in contrast to that of their European counterparts, also made a difference. The first sign of the rebirth of the City was the attraction that it held for banks throughout the world: the number of foreign banks represented in London went from 59 in 1955 to 159 in 1970 and 243 in 1975 – nearly twice the corresponding number in New York (Baker and Collins, 2005).

**Globalisation, deregulation, and innovations, 1973–2008**

The end of the Bretton Woods system in 1971–73 opened a new era of international capital flows. According to recent estimates, in 2000, foreign assets ($28,984 billion) represented 92 per cent of world GDP, up from 25 per cent (with $2,800 billion) in 1980 and barely 6 per cent ($147.7 billion) in 1960 (Obstfeld and Taylor, 2004). At the turn of the twenty-first century, the United States was – as indeed it had been since the end of the Second World War – the largest holder of capital outside its territory, ahead of Britain, Japan, Germany, and France – the same countries, in a different order, as before 1914, with the addition of a newcomer, Japan. The destination of foreign investment, on the other hand, had changed. At the beginning of the twentieth century, it was the colonies and new countries that received the bulk of these transfers. A century later, it was the rich countries of Europe and North America that, with Japan, absorbed more than 80 per cent of foreign investment (Obstfeld and Taylor, 2004).

The upsurge in capital exports started with the demise of the Bretton Woods system in 1971–73. With the end of fixed exchange rates, free movements of capital became compatible with an independent monetary policy – in line with the Mundell-Fleming’s trilemma, according to which only two of these three policy options can be pursued together. Their continued expansion took place within a new climate marked, in particular, by financial deregulations and innovations.

The deregulation movement started in the United States, with a liberalisation of the New York Stock Exchange (abolition of fixed commissions) in May 1975, making competition keener and leading to a consolidation in investment banking. The City of London followed in October 1986 with ‘Big Bang’, also a reform of the Stock Exchange (abolition of fixed commission and of the separation, unique to the London Stock Exchange, between the functions of brokers, who acted on behalf of clients, and jobbers, who were market-makers); it was also decided to open the London Stock Exchange, and by extension the City, to the outside world by permitting banks, both domestic and foreign, to buy member firms, hitherto banned. In Paris, the stockbrokers’ monopoly was abolished in 1992. In Germany, the Bundesbank authorised floating-rate issues in
1984–85, despite its distrust of financial innovation, and allowed foreign banks to act as lead banks for foreign issues in Deutsche Marks. The wave of deregulation culminated in 1999 when the Glass–Steagall Act of 1933 was repealed by the Financial Modernisation Act. Commercial banking and investment banking could again be brought together on the grounds that new financial instruments justified greater concentration amongst the various intermediaries in the world of finance.

Financial innovation became, as never before, an integral part of global finance. Three main factors account for this development. One was the incredible progress made in computing, which enabled the new financial products to reach an otherwise impossible degree of sophistication. Another was the application to the market of theoretical advances made in the field of financial economics (Markowitz and Sharpe’s modern portfolio theory, Fama’s efficient market hypothesis, the Black Scholes options pricing model, and others), opening the way for the design of ever more complex financial products. And a third was the liberalisation of the financial markets, whose aim was to improve their efficiency by encouraging financial innovations – which remained very lightly if at all regulated.

The end of Bretton Woods offered an incentive. Modern derivatives, which have been at the heart of the financial revolution of the late twentieth century, came into being in Chicago in 1972 with the creation of the International Monetary Market, where currency contracts were traded – the initiative was taken to provide facilities for hedging against foreign exchange fluctuations. The Chicago Board Options Exchange, where options were traded on shares, was founded a year later. Europe followed with LIFFE (London International Financial Future Exchange) in 1982, MATIF (Marché à Terme des Instruments Financiers) in Paris in 1986, and DTB (Deutsche Termin Börse) in Frankfurt in the early 1990s (Cassis, 2006).

Derivatives were also combined with a new investment medium: alternative management funds, better known as hedge funds, which appeared in the 1980s (Mallaby, 2010). They were usually domiciled in an offshore centre, were highly leveraged, and took short positions, through derivatives or forward operations. Their managers, who often made the headlines in the financial press, earned high bonuses – generally reaching 20 per cent of profits above a certain threshold plus 1.5 to 2 per cent management fees – and, as a rule, invested their own funds alongside those of their clients. Their growth was phenomenal during the 1990s, from a few hundreds to nearly 3,000 by 2006, with nearly $1,000 billion of funds managed. And if they enjoyed spectacular successes (with George Soros allegedly making £1 billion in 1993) they also suffered severe setbacks, most spectacularly with the failure of LTCM (Long-Term Capital Management) in 1998, which had a debt-to-equity ratio of 25 to 1 and two economics Nobel prize winners (Robert Merton and Myron Scholes) on its board of directors.

Banking and financial practices have been deeply transformed by what has become known as securitisation – the conversion of various types of debt, especially loans, into marketable securities. Its novelty resided in the type of assets converted into securities and the type of financial products emerging from this conversion. Typically, they were derivatives. Mortgages were the first debts to be securitised, in the form of Mortgage-Backed Securities (MBS); other assets in particular consumer debt (insurance policies, car loans, credit card loans, student loans, and so on) were in turn securitized, bearing the generic name of Assets-Backed Securities (ABS); credit derivatives were also developed, in the first place Credit Default Swaps (CDS), which offered protection against the risk of default on a debt through a contract between two parties, the seller as it were insuring the buyer in return of the payment of a regular fee.

These developments were at once the cause and the consequence of the emergence of a new type of multinational banks, that some have called ‘transnational banks’, to underline both the quantitative and qualitative differences with their predecessors – in terms of size, internal organisation, geographical spread, and range of activities. The specialised British overseas banks,
which had dominated multinational banking since the mid-nineteenth century, had lost their competitive advantage by the 1960s. By the turn of the twenty-first century, global finance was dominated by the world’s leading universal banks (Citigroup, J.P. Morgan Chase, Bank of America, HSBC, RBS, Barclays, Deutsche Bank, BNP Paribas, UBS, Credit Suisse, and a few others). The largest, Citigroup, had offices in over 100 countries and employed nearly 370,000 people in 2007, before the crisis. It was engaged in all types of banking and financial activities, including retail banking, investment banking, trading, wealth management, and alternative investments such as hedge funds and private equity. Even more significantly, the bank had internalised its international activities, and was able to draw resources from one place and exploit them in another. All universal banks had more or less adopted this model (Kobrak, 2016).

New York and London played the leading role in the making of this new global financial business. By the turn of the twenty-first century, New York was still in first place, with by far the largest capital market, even if London had the edge in direct international financial activities, ranking first for international banking, asset management, and foreign exchange, and attracting the highest number of foreign banks – 481, as against 287 in New York (Roberts, 1998). New York clearly set the tone in international banking and financial business, if only because of the might of the American banks, mostly based in New York, and on which a great deal of London’s international influence depended. In 2001, the two largest American banks, Citigroup and JPMorgan Chase had their head office in New York, as did the investment banks (Goldman Sachs, Merrill Lynch, and Morgan Stanley), which once again symbolised the United States’ immense financial power. London’s policy of opening up to the world had been kept up relentlessly and had borne fruit, at the cost, however, of a certain eclipse of British financial institutions (all merchant banks, with the exception of Rothschilds, were taken over by domestic and foreign financial institutions in the wake of the collapse of Baring Brothers in 1995) and the City’s dependence on foreign banks – what has sometimes been called the ‘Wimbledon effect’.

The major newcomer of the post-war era was Tokyo. As a result of Japan’s rise to the rank of economic superpower, Tokyo established itself as a major international centre during the 1970s, going in 20 years from being a regional financial centre to a centre of world dimensions. And the possibility that Tokyo might overtake New York and become the world’s leading financial centre did not seem entirely fanciful at the end of the 1980s, though such judgements proved too hasty. The American economy, far from declining, enjoyed spectacular growth in the 1990s whereas the Japanese economy went into a long slump after the burst of the stock exchange and property bubbles in 1990, which had severe repercussions for Tokyo’s international position (Cassis, 2006).

Frankfurt only overtook Zurich and Paris to become Continental Europe’s leading financial centre in the late 1980s. The decision in 1992 to establish the headquarters of the new European central bank in Frankfurt gave it a further boost, raising hopes that it might eventually overtake London, but this appeared highly unlikely a decade later. Paris regained some ground from the 1980s, without, however, really finding its role. Paris did not dominate any of the main fields of international financial activity, but held some aces, especially in asset management, as well as in the bond market and derivatives. Zurich and Geneva continued to figure amongst the leading centres, increasingly specialising in wealth management, with 35 per cent of the world’s private offshore wealth in the early 2000s, as against 21 per cent for Britain and 12 per cent for the United States (Cassis, 2016).

The number of aspiring international financial centres increased significantly in the last two decades of the twentieth century. Several cities, especially in emerging economies, were actively promoted with the aim of gaining the status of regional or even global international financial
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centre. Two centres proved particularly successful: Singapore and Hong Kong (Roberts, 1994). Singapore’s development was the result of a systematic effort made on the part of the authorities, immediately upon the country’s independence in 1965, to turn it into an international financial centre, by hosting the nascent Asian dollar market (the counterpart of the Eurodollar market in London) and encouraging the emergence of a bond market. Singapore’s financial markets really took off in the 1980s and the foreign exchange market grew in its wake to reach fourth position in 1998, behind London, New York, and Tokyo; derivatives started being traded in 1984 with the foundation of SIMEX; and as a result, an increasing number of foreign banks set up there, reaching 260 in 1995.

In Hong Kong, by contrast, the authorities adopted a non-interventionist stance, at the same time creating conditions conducive to developing financial activities, notably a favourable tax system and modern infrastructure, in addition to the absence of exchange control, a robust legal system, the existence of the rule of law, and its position as the door for a China that began to open up to the world at the end of the 1970s. Syndicated Euro-credits found a home here, with operations on behalf of enterprises and governments in the region’s main economies – Japan, Taiwan, South Korea, Australia, and New Zealand, later joined by Thailand, the Philippines, and, above all, China. In the space of about ten years, Hong Kong established itself as the world’s third centre for Euro-credits, behind London and New York. Its international status was mirrored in the presence of foreign banks, numbering 357 in 1995, that is to say more than any financial centre except for London (Roberts, 1994).

New York, London, Hong Kong, and Singapore stood at the apex of a hierarchy of financial centres. The Global Financial Centres Index listed 46 centres when it was first published in 2007, with London ranked first (in terms of competitiveness) and Athens 46th. The number had nearly doubled ten years later. Multinational banks considerably expanded in the second age of global finance, with a much stronger presence in the financial centres of both advanced and emerging economies – from about 20 per cent, in terms of number, in 1995, to 34 per cent in 2009, with some countries, especially in Eastern Europe having more than 50 per cent of assets controlled by foreign banks.

Information: global finance after the crisis

The Global Financial Crisis of 2007–09 was the worst financial panic in modern history. Never before, even in the 1930s, did so many of the leading banks, in so many advanced economies, find themselves, at almost exactly the same moment, requiring state intervention to save them from failing. And yet its effects on the global financial business have been fairly limited – in sharp contrast with what happened during the Great Depression which, as an economic downturn, was of a far greater magnitude than the so-called Great Recession. The causes and consequences of this financial debacle cannot be discussed here, but two points can be briefly made in conclusion to this overview: one concerns the balance of power in global finance, the other the conduct of financial business. They reveal more continuity than change in the development of global finance.

Ten years after the debacle of 2008, only one new financial centre, Shanghai (together with Beijing) had been added to the top ten; and the ranking order had only been marginally altered, with Hong Kong and Singapore definitely overtaking Frankfurt and Paris and possibly also Tokyo. This should not come as a surprise: since the late nineteenth century, financial crises have never led to any real change in the hierarchy of international financial centres. In that respect, major changes have all been brought up by wars (Cassis, 2006). The French wars led to Amsterdam’s final demise and its replacement by London as the world’s leading financial centre.
at the turn of the nineteenth century. London was overtaken by New York a century-and-a-half later, as a result of the First and Second World Wars. At the same time, wars mainly accelerate long-term processes already under way: London had already overtaken Amsterdam as a trading centre in the late eighteenth century; and with the United States’ GDP already twice as large as that of Britain by 1905 with about the same GDP per head, it was only a matter of when New York was going to supplant London. The Global Financial Crisis was thus unlikely to alter the balance of power in global finance in favour of Shanghai, the main contender amongst emerging markets: when it broke out in 2008, China’s GDP was about one-third of that of the United States and its GDP per head less than a tenth. China has been catching up since then, but it will need time and will have to meet several conditions, not least in terms of wealth and openness, before claiming the mantle.

Within the leading financial centres, the financial crisis slowed down business activities. Most transnational banks suffered enormous losses and some were brought under state control. They eventually recovered, though unevenly, depending on countries but also on individual banks. New regulation was introduced in the wake of the crisis, with Basel III at international level, the Dodd–Frank Act in the United States, the Vickers Report in Britain, and the various steps towards the Banking Union in the Eurozone and several other countries of the EU. Less than ten years later, the question was whether regulation had gone too far in its burdensome and sometimes apparently unnecessary complexity, with people in the profession talking of regulatory tsunami (Sylla, 2018; Roberts, 2018). From the perspective of global finance, cross-border lending declined, especially on the part of European banks. On the other hand, foreign direct investment increased, though more often in search of lower taxes than actual investment. However, despite relying on local resources rather than capital transfers in their lending business, transnational banks continued to play a significant role in the making of global business.

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