

European Banks and the American Challenge: Competition and Cooperation in International Banking under Bretton Woods. *Edited by Stefano Battilossi and Youssef Cassis*. Oxford: Oxford University Press, 2002. vi + 228 pp. Tables, figures, notes, index. Cloth, \$75.00. ISBN 0-19-925027-8.

Reviewed by Lawrence H. Officer

This volume is a compilation of the papers presented at a conference held in 1999 at the London School of Economics. The main theme is the response of European banks to the “challenge” posed by U.S. banks entering Europe and engaging in “innovational international banking” in the 1960s and 1970s. The book consists of nine chapters, with three of them written by one or the other of the editors. The overall quality of the papers is good, with many reflecting conscientious (generally archival) research and most exhibiting careful economic analysis.

Stefano Battilossi sets the stage with a fine, historically oriented introduction. The “nationalistic retrenchment” and “extensive national regulation” that followed the Wall Street boom and bust—and the crisis that brought on the Great Depression—terminated the first foray of U.S. banks into the international economy. In the 1960s and 1970s, U.S. banks reentered the international sphere, stimulated the development of Euromarkets, and forced the European banks to counter the U.S. competition. Ironically, “US banks turned isolated financial innovations such as Eurocurrency trading and Eurobond issues—originally designed and promoted by European institutions—into the very source of their world-wide dominance” (p. 27).

The coeditor, Youssef Cassis, supplements the introduction with a chapter evaluating European banks in the 1950s, just prior to the U.S. “invasion.” While European banks had many more foreign branches than did the U.S. banks, they were concentrated in developing countries. The management of European banks was impressive, but the institutional framework in which the banks operated did not stimulate innovation. Though British banks engaged in some innovation, it was the U.S. banks that led the way in the shift of international banking from developing to industrial countries and from retail to wholesale banking.

The contribution of Richard Sylla differs from the others in its consideration of the U.S. viewpoint rather than the perspective of the European banks. He observes: “What to Europeans appeared to be a US banking *invasion* from the 1950s to the 1970s was, from the perspective of the American banks, more in the nature of an *escape*” (p. 53). The escape was from the anticoncentration, anti-big-business, banking-partition policies and regulations that severely constrained U.S. banking behavior in the domestic market. Interestingly, although the U.S. banks

were primarily responsible for the remarkable expansion of the Euromarkets, the European market as such was not the focal point. Rather, global banking was the objective. As Sylla notes, “To a truly global financial service enterprise such as Citibank, Europe itself, apart from being the location of Eurodollar and later Eurocurrency markets, was not all that important” (p. 68).

Chapters authored by Battilossi, Eric Bussière, and Ulrich Ramm provide case studies of the respective British, French, and German responses to the U.S. competition in Europe. The same theme, but from a multicountry viewpoint, is taken by Duncan Ross. It wasn’t just U.S. competition that was the impetus to changes in European banking behavior; it was also European integration. An important strategy adopted by the European banks was cooperation—via banking clubs and consortiums—as distinct from enhanced competition among themselves.

The remaining chapters, by Catherine Schenk on international financial centers, and Harold James, on central banking in financial internationalization (from a historical standpoint), are of interest, but seem out of sync with the rest of the volume. Schenk pays considerable attention both to the role of the international monetary system in the development of international banking and to the influence of domestic policy and regulation (as does Sylla).

What lessons can be learned from this experience? As some of the authors point out, the U.S. “invasion” triggered substantial financial innovations in Europe: development of Eurodollar, Eurocurrency, and Eurobond markets; liability management; replacement of the traditional policy of “liquidation” when assessing the repayment ability of borrowers with the “going-concern” approach; negotiable certificates of deposits; “parallel” and “unit-of-account” loans, to name but a few. It appears, though most of the authors do not so state, that the European banks needed a kick (more than a nudge) to abandon their traditional, safe, and structured behavior patterns. Battilossi correctly describes their response to the U.S. banking challenge:

The transmutation of British clearing banks from sleeping giants, stuck to their tradition of cartelized, domestic-oriented, and retail-focused institutions, into internationally minded groups ambitiously competing in wholesale and corporate global banking has probably to be considered one of the most remarkable changes in post-war Western banking. (p. 104)

In contrast to the wake-up call that the “sedentary” European banks received from U.S. competition, the U.S. banking expansion into Europe was a response to constraining U.S. legislation and regulation. Why did the U.S. banks autonomously escape this environment through international expansion and innovation, whereas the European banks required the U.S. “invasion” to change their ways? One reason is suggested by Sylla. U.S. banks hired MBA graduates, who were open to new techniques (such as computer technologies and information systems) and were eager to innovate. It may be that Cassis is correct in judging that “[o]verall, it

is unlikely that the quality of [European] bank management could have been significantly better” (p. 47). Nevertheless, that management could certainly have been more innovative!

In sum, this is a book that provides a welcome historical study of banking innovation and response. Both banking practitioners and scholars of banking history will find much of interest in the volume.

Lawrence H. Officer is professor of economics at University of Illinois at Chicago. A specialist in international monetary history, he is the author or editor of eleven books and many articles. His most recent books are Between the Dollar-Sterling Gold Points (1996) and, as coeditor, Monetary Standards and Exchange Rates (1997).