

Capitals of Capital: A History of International Financial Centres, 1780–2005. By *Youssef Cassis*, translated by *Jacqueline Collier*. Cambridge: Cambridge University Press, 2006. xiv + 385 pp. Figures, tables, bibliography, notes, index. Cloth, \$40.00. ISBN: 978-0-521-84535-9.

Reviewed by Forrest Capie

Youssef Cassis has written a highly readable narrative account of the emergence and changing fortunes of the world's leading international financial centers over the course of the last two hundred and twenty-five years. (The book, originally written in French, has been well served by the translator.) This is a topic that could easily degenerate into a dry recitation of percentage shares of this or that variable, market, or country, but that risk has been avoided here. Cassis sets out to investigate the "dynamics of the rise and decline" of the centers by means of historical and comparative analysis, serving notice from the beginning that central banks were crucial players in this process.

He tells the story in six chapters, each covering a chronological chunk, starting in the introduction with the early years, 1780 to 1840. Chapter two, "Concentration of Capital," begins in 1840 and ends in 1875; chapter three discusses globalization in the closing years of the nineteenth century; chapter four spans one war, a depression, and then war again between 1914 and 1945; chapter five, "Growth and Regulation," takes up the story in 1945 and continues to 1980; and chapter six looks at globalization and innovation in the last years of the twentieth century. A brief conclusion offers explanatory hints and peers a short way into the future.

Defining an international financial center is not easy. Nor, once defined, is it a simple matter to identify how much of a particular activity is international. Rather than becoming bogged down with definitions or measurements, Cassis simply identifies the predominant centers in a way that leaves little room for argument. He does not offer a theory of financial centers, international or otherwise, but lists the principal criteria for identifying them, such as a strong balance of payments, a strong currency, a vibrant or large economy, a large creditor economy, and political stability. He does not apply these

criteria explicitly, as doing so might raise questions. For example, London in the second half of the twentieth century would fail on almost all the usual counts, so the explanation for its survival must lie elsewhere.

The territory he covers is mainly Europe, and, throughout his story, London leads the pack. Paris became a serious challenger in the nineteenth century but eventually faded. Berlin rose to prominence at the close of the nineteenth century. Zurich, Geneva, and Brussels held notable positions before 1914, as did Amsterdam before 1800 and again briefly in the 1920s. Outside Europe, there is New York, but Tokyo has emerged more recently as a city to be reckoned with, as have Hong Kong and Singapore. Then there are the cities, touched on briefly, that take advantage of their tax position as “off-shore” centers, although they include Luxembourg as well.

The story of the emergence of financial centers that engage in a variety of international financial activities features London from the beginning. During the Napoleonic Wars it displaced Amsterdam and seldom looked back, although it had to overcome a number of challenges. By the middle of the nineteenth century London had satisfied most of the stated criteria and had become clearly predominant, although Paris proved to be somewhat of a rival. The French consciously promoted themselves with proposals for a single world currency based on the franc and by leading the Latin Monetary Union, hoping in this way to increase its prestige and influence. Both Berlin and New York gained prominence in the last quarter of the nineteenth century but lost ground during World War I. Although Berlin did not recover after the war ended, New York bounced back in a serious way. Indeed, New York emerged as the financial center of the largest economy in the world in a country that had become, by that time, the world’s biggest creditor. However, New York was as much a national and regional center as an international one. The city was poised to dominate after World War II, but regulation, which became the most critical factor in the development of financial centers, not only impeded its assumption of the top position but also acted as an incentive for U.S. banks to take their activity abroad. Britain, on the other hand, avoided the worst aspects of regulation, although it was hindered by Treasury intervention in most parts of the system. The City’s Euromarkets gave a huge boost to activity in London and helped to preserve its leadership position.

Despite negative factors, such as the permanent loss of confidence in sterling after 1931, London, as Cassis points out, kept its dominant position in certain activities, such as financing international trade and insurance. One of the main reasons for success in international trade finance is geography. London was a port that handled a vast amount of international trade. However, the economy size matters too, as does the concentration of activity.

Forrest Capie is professor of economic history at Cass Business School, City University, London. He is the author of numerous books and articles on British and international monetary, financial, and commercial history. At present he is writing the latest installment in the Bank of England's history.