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978-0-521-14404-9 - Capitals of Capital: The Rise and Fall of International Financial Centres,
1780–2009

Youssef Cassis

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CAPITALS OF CAPITAL

This is the first history of international financial centres and of the major stake that they now represent in the global economy. Youssef Cassis, one of the world's leading financial historians, provides a fascinating comparative history of the most important centres that constitute the capitals of capital – New York, London, Frankfurt, Paris, Zurich, Amsterdam, Tokyo, Hong Kong, Singapore. The book explores the dynamics of the rise and decline of these great centres from the beginning of the industrial age up to the present, setting them in their economic, political, social and cultural context and drawing on concepts from financial economics in its analysis of events. This paperback edition has been fully updated to take account of the challenges posed by the financial collapse of 2007–8 and offers the longer-term framework necessary to understand the crisis gripping capitals of capital today.

YOUSSEF CASSIS is Professor of Economic History at the University of Geneva and Visiting Fellow at the London School of Economics and Political Science. His work mainly focuses on banking and financial history, as well as business history more generally. His numerous publications include *City Bankers, 1890–1914* (1994) and *Big Business: The European Experience in the Twentieth Century* (1997).

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Capitals of Capital

*The Rise and Fall of International Financial
Centres, 1780–2009*

Youssef Cassis

Translated by Jacqueline Collier



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Foreword

Past performance is no guarantee of future returns ... this well-known warning – printed regularly on all investment prospectuses, and rightly so – demonstrates quite simply how much financiers tend to focus on the future and on what tomorrow might bring rather than dwelling on the past. But looking ahead does not mean ignoring yesterday's lessons. Although no two financial shocks are ever the same, they often display strikingly similar patterns: when speculative bubbles – whether in tulips in 1637, railways in 1845 or the Internet in 2000 – burst, it is always sudden, investors change their minds without warning and, with the crisis at its height, markets simply grind to a standstill. The risks facing investors are legion, but no matter how much they remember these past mishaps, there is no way of predicting the exact timing or repercussions of tomorrow's shocks. In this respect, knowledge of the past is useful, but by no means vital.

There is, however, another part of the financial universe that evolves less erratically, tracking a more predictable course: the business of settling transactions, transferring deposits and assets, trading securities, organising the structure and legal status of the main intermediaries – a complex set of functions encompassing most back-office banking operations and the hidden cogs of the financial sector's machinery. Highly intensive in physical and human capital, structures of this sort are always slow to change. Moreover, in the financial arena, the infrastructure is so vast and so expensive to construct that individual players have naturally sought to keep costs down by grouping many related activities in one location, more often than not close to a stock exchange's trading floor. This drive towards greater concentration was so strong all around the developed world that it finally gave birth to the so-called 'financial centres'. Whilst most such places confined their business to their immediate horizons, either local or national, a select few extended their activities way beyond their original and natural territory to turn themselves into international financial centres – the true

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world's *capitals of capital*. These capitals soon laid down the operating standards for finance, imposing their skill and technical innovations – some would even go so far as to say their fashions and whims – on the rest of the sector operating in more remote and less prestigious areas. Every decision-maker in finance should thus have some notion of how these centres have evolved, as details of their history are necessary background knowledge for anyone trying to reshape, either partially or totally, any kind of financial activity. Will these capitals of capital continue to dominate world finance, pushing for even more concentration centred around them and marginalising weaker or smaller centres even further? Or will they fade in importance or even very slowly vanish into oblivion, dissolving into a plethora of dislocated and increasingly fuzzy trading networks, as physical trading floors disappear one by one, cheap information is disseminated instantaneously worldwide and business procedures everywhere are standardised? Two questions, countless opinions, but the various answers could have a major bearing on many strategic investments and (re) location decisions, some of them vital for the future of specific cities, regions or even entire countries.

As a 200-year-old private bank that has weathered many a crisis, recession and war, Pictet & Cie of Geneva has garnered a wealth of experience and tradition. Interestingly, a number of key elements in the Bank's history have closely mirrored developments in the world's leading international financial centres even though Geneva, our birthplace and home still today, has always tended to rank among the second tier of financial market-places worldwide. At its inception in 1805, our establishment was a merchant bank, ready to undertake all sorts of banking business and trading operations. Often working closely with other private bankers in Geneva, it gradually evolved over time into an investment bank, placing its capital in various ventures, such as shipping, before setting up an investment trust in US and Mexican shares in the early years of the twentieth century. Finally, from 1910 on, Pictet & Cie turned to specialise in private banking and, later in the century, branched into institutional asset management to become eventually what it is today: a small international banking group dedicated to wealth management. Although, through the decades, Pictet & Cie has retained its structure as a private bank and not been transmuted into a limited liability company or a universal bank, many of Pictet's partners in the nineteenth century served as directors on the boards of the deposit banks set up at the time to smooth settlement procedures and interbank clearing. Understandably, much of Pictet & Cie's knowledge concerns Geneva and private banking. Nevertheless,

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this accumulated wisdom inherited from our local past and particular specialisation is no longer sufficient for a bank like ours which is seeking to develop and excel in today's financial universe, even if only within the confines of a rather narrow, but well-known niche. For us, strategic planning and long-term decisions need to be based upon a thorough examination of our environment and its mechanisms, which calls, among other things, for a sound grasp of how the great financial centres have functioned in the past and how they do so now.

Unfortunately, no single book until now traces the history of the 'capitals of capital' in a clear and comprehensive manner, although there is no shortage of articles on specific areas or particular cities. To mark its bicentennial, Pictet & Cie thus decided to fill this gap, calling on an expert in this field, the historian Youssef Cassis – recently appointed Professor of Economic History at Geneva University after having lectured in London and Grenoble – to summarise in a single volume 200 years of history of the world's most significant international financial centres. He has masterfully risen to this challenging task, portraying the main trends, human networks and technical changes that, little by little, have shaped and transformed these international centres into what they are today. The text will, of course, be of interest to students or anyone curious to learn more about this topic, but, thanks to its extensive array of notes and the extent of the literature consulted, professional economic historians themselves should also find it a rich source of useful and informative material. We, therefore, firmly believe that this book will become a reference in the field.

Claude Demole
Partner
Pictet & Cie

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Preface

This book was written to mark the bicentenary of Pictet & Cie, Geneva's large private bank. Among other events, the partners wanted to commemorate this anniversary by publishing an academic work that would contribute to banking and financial history. This desire to support a scholarly project reflects a broadness of outlook, characteristic of the Genevan humanist tradition, which is probably not unconnected with their bank's extraordinary longevity. I suggested to them that I write a history of the main international financial centres over the last two centuries, an important topic that had interested me for a long time and that I had broached in some of my publications, but that, oddly enough, had not yet been the subject of a comprehensive historical study. I would like to thank the Banque Pictet's partners, especially Ivan Pictet and Claude Demole, for giving me the opportunity to write such a book and, hopefully, to help fill this gap.

The interest aroused by the book called for a paperback edition. However, the financial meltdown which engulfed all financial centres from the summer of 2007 called for some updating: the most severe financial crisis since the 1930s could not simply be ignored. Accordingly, a new section has been added to the last chapter, providing a necessarily provisional account of what actually took place and attempting to make some sense of the events. In the same way, the final part of the conclusion dealing with possible future developments of international financial centres had to be rewritten: I had not foreseen a massive crisis as a likely scenario – very few had in late 2004. Its effect on the leading international financial centres will briefly be discussed.

Otherwise no significant revision of the text has been deemed necessary. I wrote this book with several audiences in mind. Without sacrificing scholarly rigour, the style adopted is not intended primarily for specialists, even though they should find plenty to appreciate here too. This work by a historian, rooted in a narrative account, nevertheless draws on some of the concepts of financial economics as it endeavours

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to analyse and interpret events. I hope that both academics, particularly historians, economists and political scientists, and practitioners of banking and finance who have a sense of history's importance, as well as others curious about the international financial issues that carry a great deal of weight in today's world, will find reading this work worthwhile and pleasurable. History does not offer any lessons for decision-makers and even less any ready-made solutions, but it does allow us better to understand the present – and being unaware of it can only lead to serious errors.

This book has been designed as a creative synthesis, largely based on existing literature, but new by virtue of its purpose, its long-term perspective and its comparative approach. It would have been impossible for me to write it without the help and advice of numerous colleagues and friends whom I would like to thank here: Balaji Ambigapathi, Stefano Battilossi, Philip Cottrell, Michel Dacorogna, Howard Davies, Lucie Drevon, Olivier Feiertag, Jakob Graf, Joost Jonker, Ginette Kurgan van Hentenryk, David Kynaston, Margaret Levenstein, Alain Plessis, Laure Quennouëlle-Corre, Richard Roberts, Catherine Schenk, André Straus, Richard Sylla, Samuel Tilman, Jean-Jacques Van Helten, Patrick Verley, Eugene White, Mira Wilkins and Fiona Wood. I would also like to thank Jacqueline Collier Jespersen for her meticulous translation of a book that I opted to write in French, as well as the various employees, permanent or temporary, of the Banque Pictet, who allowed me to produce this work. I am, of course, responsible for any errors that may remain and for the views that are expressed in it.

YOUSSEF CASSIS