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A former graduate from Ecole Normale Supérieure, Marc Flandreau is an expert in the history of the international monetary and financial system. Before joining the Institut des Hautes Etudes Internationales et du Développement in 2008, he has held teaching and research positions at Sciences Po, Paris and Centre National de la Recherche Scientifique. He has also been a visiting professor in Stanford and Berkeley and is currently a research fellow with CEPR, London. Along with numerous articles, he is the author or co-author of five books, including *The Glitter of Gold. France, Bimetallism and the Emergence of the International Gold Standard, 1848-1873* (Oxford, 2004) and *Money doctors: the experience of international financial advising 1850-2000*, (Routledge, 2004). He also works as an expert for the IMF, the Bank of Norway, the Bank of France, the Bank of International Settlements and Lehman Brothers, and investment bank.

Banking Networks and European Financial Architecture on the Eve of the Industrial Revolution

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Abstract

The architecture of the international monetary and financial system during the period ranging from the beginning of the Commercial Revolution to the British industrial take-off in the late 18th century remains obscure. It is entirely neglected by modern institutionalist approaches to financial development, which emphasize domestic dimensions and portray progresses as proceeding through national “Financial Revolutions” that are seen as a preconditions for national industrial take-offs. The basis of these Revolutions, it is argued, are to be found in domestic political transformations and in particular by the emergence of mechanisms aimed at controlling the executive through its subjection to an elected parliament. In these approaches, nations are quasi-preconditions for the emergence of financial markets, and international features follow down the stream, when arbitrageurs get into the business of liaising domestic markets to one another.

This modern lack of interest for transnational features of financial development is at odds with earlier economic historians' emphasis on European-wide dimensions. Marc Bloch's

Monetary History of Europe was the first major work to recommend that economic historians think of European monetary and financial development as a whole. Raymond de Roover's history of the "bill of exchange" followed suit. He argued that emergence of these tradable promises to pay a certain amount of money in a certain place contributed to unify European money markets and provided foundations for Europe's later financial set up. More recently, Larry Neal has provided quantitative evidence supporting a characterization of 18th century European monetary geography as seamless. Peter Rousseau and Richard Sylla argue that international trade was a driver of financial development in Amsterdam. In this perspective, it would be foolish to focus on certain portions of Europe's financial system, when its most striking characteristic feature would be its global dimension.

This paper is the first attempt to push forward our statistical knowledge and economic understanding of what can be called a dark age of international monetary relations. As will be seen, it departs crucially from modern approaches by focusing on trans-national dimensions. For this purpose, we use new data and modern techniques that have never been exploited previously. Starting with the end of the period, we provide insights on foreign exchange relations on the eve of the Industrial revolution. We think of this work as a first step towards a more ambitious examination of trends and transformations in the European monetary system from the 15th century onwards.

This paper explores the monetary geography of Europe circa 1750 by collecting and exploiting new material on linkages among financial centers. Our unit of analysis is the individual city, seen as a "node" in a "network" of financial linkages. Financial centers could be free cities, capitals, or secondary cities in unitary states. What we are interested in determining is the extent to which the bills of one city circulated "abroad", by which we mean other cities. Relying on information gathered from primary sources (foreign exchange lists or "currents") and contemporary merchant bankers' handbooks, we construct a map of inter-city financial relations. This map has a matrix representation. Consider two cities (i,j). Bills payable in city i may be available or not available in city j. The same holds for bills payable in j, which may or may not be available in city i. Previous research has shows that such a map is straightforwardly amenable to modern network analysis techniques. In the second stage, we exploit these techniques to identify the contours of monetary linkages in early modern Europe.

Our objective is mostly descriptive. However, we think of this paper as laying the ground for future research and opening new avenues. We also believe that some of the features we have identified may eventually recast contemporary debates on early modern

financial development. As it stands, the paper has three by-products. First, it produces a ranking of international centers that breaks critical ground in broadening our knowledge of the comparative reach of cities. Not only can we locate Amsterdam with respect to Hamburg, London or Paris, but we are also able to document Italian, Spanish, Swiss, Austrian, as well as secondary German or Dutch centers. This is a critical departure from traditional "horserace" approach to competition among financial centers that usually confines itself to discussing the relative importance of a handful of markets at best. Second, the paper identifies a trans-European "crescent" of dense financial linkages which previews geographer Brunet's "Blue Banana", a curved corridor that today's holds one of the world's highest concentration of people, money, and industry. This geographical perspective on international development is in contrast with the conventional perspective, which emphasizes constitutional factors and politics and places a heavy weight on Britain's supremacy. That the geography of European financial system in the 18th century anticipates on later trends suggests that attention on financial factors in economic development is adequate but that the exclusive focus on London is not. Third and last, our study raises some critical questions on the interaction between financial space and political authority that may serve as a basis for renewed research effort on the politics of geography in early modern Europe, opening new avenues on the understanding of the economics of mercantilism.