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BOOK REVIEWS

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Christophe Lastecouères, **Les feux de la banque: oligarchie et pouvoir financier dans le Sud-Ouest (1848–1941)** (Paris: CTHS, 2006, €35)

Showing the role and importance of banks in economic development has been key to banking history since the works of Alexander Gerschenkron. But most investigations have been either too broad or too national to not bring deceptive answers, leaving Gerschenkron's stimulating hypothesis unproven. Following the tracks of Alain Plessis – who rightly criticised the narrow quantitative approach of a so-called French banking backwardness in the nineteenth century – and Naomi Lamoreaux – who stressed the importance of local relationships in banking – Christophe Lastecouères's published PhD dissertation, which was awarded the 2002 business history prize of the Crédit Lyonnais, offers a stimulating case study in regional banking. In doing so, he contributed to the work of a group of French historians, led by Prof. Michel Lescure, focusing upon local banks and local credit relationships. Associate professor at the University de Pau et des Pays de l'Adour, Lastecouères provides us with an extensive inquiry, deep inside the social frameworks of banking in the French south-western town of Bayonne, and explains the rise and demise of the local oligarchy, that of bankers.

It is somewhat misleading to summarise a work which builds on details of sometimes minor importance to bring back to life a lost world. Indeed, the first challenge was to bridge the gap between a once thriving banking community, whose roots plunge far into the town's history, and the absence of almost any direct records from local banks. The author had to investigate multiple archives to find evidence of banking activity, and then use whatever element he could find to build the wider picture he intended. The cross-referencing of national and local archives, mainly from the Bank of France and the chambers of commerce from Bayonne and Dax, plus an extensive collection of books, memoirs and secondary sources, facilitated the work. But to overcome the loopholes and gaps in documentation, the author had to rely on an original and stimulating set of hypotheses, not only historical but also sociological, economic – mainly the information asymmetry theory – and geographical – the very idea of what is 'territorial'.

This last question, territory, is both a starting point and a result of the research. Those are the most original findings, methodologically as well as empirically. Here the author takes part in a larger set of reflections in economics and history. And it is certainly no coincidence if this work crosses the path of another south-western banking historian, Hubert Bonin, who has written widely on the same question: why did south-western France not develop an industrial economy but continued to rely upon trading and tilling?

Lastecouères's balanced answer points towards inappropriate banking practices and structures, but emphasises the social and cultural factors of what he describes as a failure. As he writes, 'there's as much to learn from a *success story* as from a *failure story*' (p. 28). Both success and failure stories find their key in the embeddedness of the banking community and practices in the social fabric of their own territory, which means the territory is at the same time a product of those banking practices and the area to which they are confined. The result is a strong linkage between social structures, social hierarchies and social practices, which offers a measure of protection against foreign competition in times of stability but leads to counter-productive conservatism in times of change.

Thus, the same factors can explain the high social status and the economic power attained by Bayonne's bankers at the end of the nineteenth century, and the speed and depth of their failure between 1905 and 1925, i.e. before the great crisis of the 1930s. To most authors, territorial embeddedness includes three dimensions, geographic, social and technical, but they focus mainly on the first two. Contrary to those analyses, Lastecouères highlights the technical dimension, not as a cause but as a criterion. Resting upon their social and territorial assets, Bayonne's bankers neglected to understand, accept and put into practice the new dimensions of banking activity: retail banking; incorporation and large capital support; recurrent earnings instead of one-off profits; permanent credit screening; emphasis on rules and processes rather than on interpersonal relationships. Indeed, to accept such changes would have modified the structure and extent of the territory they commanded and so diluted their social value into a larger community where their commanding position would have been threatened. They preferred to fail from the top than to evolve as comparatively modest capitalists.

Here is perhaps the only serious criticism of this remarkable work: the notion of 'acculturation', as used by the author, seems rather confusing in its emphasis at least implicitly on a kind of cultural reluctance to risk change, while he acknowledges the taste of those bankers for risky businesses. An approach more firmly based on the economics of risks and assets would have reduced the use of cultural factors to a social 'black box' and may have led to more positive conclusions, perhaps by showing how and why risks of similar magnitude were judged differently by these bankers. The rather vague presentation of some banks' balance sheets also points towards these limitations.

Nevertheless, this book is a very good example of what the history of banking can offer to economists, if the latter think that models must be confronted with the real world. By collecting a large set of quantitative and qualitative data, by enlarging the history of banking to the history of bankers, and with this *fil rouge* that a banker is always from one time and from one place, Lastecouères has succeeded in writing a vivid story of *grandeur et décadence*.

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Paolo Mauro, Nathan Sussman and Yishay Yafeh, **Emerging Markets and Financial Globalization: Sovereign Bond Spreads in 1870–1913 and Today** (Oxford: Oxford University Press, 2006, 200 pp. £40)

Much of the past historical research on sovereign debt markets has focused mainly on their primary market functions, in particular how access to markets or sovereign defaults are determined. A new book by economists Paulo Mauro, Nathan Sussman and Yishay Yafeh is a first serious attempt to explore and analyse the secondary markets in sovereign debt. The authors do this by comparing two large markets in history where such loans were traded. The first one is the large London bond market in 1870–1913 – the first era of globalisation – where bonds from all over the world were actively traded. The other one is the more recent international market for Brady bonds issued mostly by Latin American countries and traded since the early 1990s.

Comparing spreads from these remote markets naturally conveys a number of data-related and methodological problems. For example, bonds in the early period were mostly consols (i.e. eternal loans) while the Brady bonds matured after only about 10–15 years. The calculation of bond yields also differed, being current yields in the past and 'stripped' yields of Brady bonds. It is unclear to what extent these and other problems might influence some of the book's basic messages. However, the analyses are mostly based on very large shifts in spreads and their correspondence with other variables which suggests that they are quite robust to most variations in data or method.

A few words should also be said about the impressive historical database that underlies the findings of the study. Using sources such as *Investors Monthly Manual*, the London *Times* and various archives, it comprises high-frequency secondary market yields, matching primary market information and a detailed news article database with nearly 2,500 articles indexed by topic and country. Needless to say, this empirical achievement in itself stands out as one of the book's major contributions.

What then are the major findings of this book? In three of the book's five analytical chapters, the authors examine what drives emerging market spread changes by linking them with news events in the media. Specifically, by classifying news in different categories such as 'wars', 'bad economic', 'reform', 'debt related', etc, a very precise picture of the kind of information that influences the spreads at each point in time is given. Whether news of wars is equivalent to actual wars in terms of their impact on spreads, however, remains to be shown in future studies. Panel data regressions are then used to show that wars and instability had a much larger impact on spreads than did other types of news, especially news about institutional reforms. Perhaps