Episode Book

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Why Financial Centres Outlive the Forces That Built Them

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SYNOPSIS

Financial capitals rarely coincide with political seats, surviving shifts in transport, technology, and regulation. Looking at Charles Kindleberger's theories on transport breaks, this episode traces how trade routes and institutional ecosystems anchor commerce in places like Zurich and New York. It explores how Zurich leveraged the Gotthard railway tunnel over historic rivals, how wartime credit reshaped American banking, and why shared legal and professional infrastructure prevents digital markets from simply evaporating into the cloud.

TRANSCRIPT



Corn

A railway tunnel is a wonderfully undignified foundation for a banking empire.



Corn

Daniel wants to get underneath a phrase we use very easily, global financial centre. We can name the cities, but what actually earns them the title, and how did they get there? His particular puzzle is the mismatch with political power. New York seems to have both. Zurich has extraordinary financial reach without being where governments gather to decide the world's business.



Herman

The distinction starts inside those examples. New York has markets, banks and the United Nations, but the American government sits in Washington. Zurich isn't even Switzerland's federal seat. Calling either city powerful needs a follow-up. Powerful enough to finance a company, price a currency, negotiate a treaty, or send a navy?



Corn

Different desks, occasionally the same lunch.



Herman

Sometimes the same people move between them. Yet the financial concentration has its own geography. It can survive changes in government, changes in transport and changes in the technology of trading.



Corn

Before we explain that persistence, we need something firmer than expensive offices. Otherwise every tower with a revolving door gets to declare itself an international monetary institution.



Herman

A financial centre concentrates financial-services commerce. Banking, asset management, insurance, market venues and clearing all count. So do the lawyers, accountants and rating agencies supporting the transactions. Those services belong inside the definition. They're part of how a deal becomes executable.



Corn

That last part matters. A wealthy city could have plenty of rich residents without being where anyone structures their investments. The customers can live somewhere entirely different from the machinery serving them.



Herman

Much of that machinery is invisible from the public exchange. Over-the-counter business happens directly between participants. A company hedges currency exposure with a bank. An institution arranges financing through intermediaries. No ceremonial bell, but substantial international business.



Corn

The bell has excellent public relations.



Herman

The standard comparative scoreboard is the Global Financial Centres Index, published by Z/Yen and the China Development Institute. Its fortieth edition came out on September sixteenth. It rates competitiveness, combining professional assessments with external measures of the conditions for doing business.



Corn

Competitiveness sounds measurable, but also broad enough to hide several arguments. Cheap offices and reliable courts might point in opposite directions. What's actually going into it?



Herman

Five areas. Business environment, human capital, infrastructure, financial-sector development and reputation. The latest edition uses a hundred and forty-four instrumental factors. That spreads the measurement across the ecosystem rather than declaring the city with the largest bank the winner.



Corn

Reputation also means people are partly rating what other people already think.



Herman

There's that feedback, yes. It combines thirty-nine thousand five hundred and thirty-one assessments from six thousand one hundred and forty-seven professionals. Those are assessments, not that many separate people, and professional judgement doesn't stop being judgement because you aggregate it.



Corn

Still more substantial than counting helicopters.



Herman

It researched a hundred and thirty-nine centres and rated a hundred and seventeen. Useful coverage, provided we remember what the resulting number represents.



Corn

A place's suitability for financial business. Not a count of the decisions its government can impose on everybody else.



Herman

Take the older institutional taxonomy. International financial centres serve broad global networks. Regional centres concentrate business from a surrounding area. Offshore centres serve substantial non-resident business. These categories overlap.



Corn

Singapore can be regional to a company expanding through Southeast Asia and offshore to somebody holding assets there. Same city, different relationship to the customer.



Herman

Singapore fits both descriptions. Corn, before you heard that classification, would you have treated offshore as a geographical description?



Corn

I'd have expected water somewhere in the sales brochure. But Luxembourg rather damages that theory. The important border is between the customer's home jurisdiction and the jurisdiction providing the service.



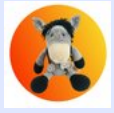
Herman

Delaware and South Dakota make the point even more forcefully. Offshore is used for arrangements in perfectly onshore places. The classification concerns non-resident business, not islands. It also doesn't tell you, by itself, whether an arrangement is unlawful.



Corn

An inland tax structure. Maritime without the inconvenience.



Herman

The formation story begins with a wonderfully irritated economist. Charles Kindleberger's nineteen seventy-four account says the subject had fallen between two stools. Urban economics discussed commerce, industry and housing, but rarely finance.



Corn

I sympathise with the omission. Start reading about a city and suddenly somebody wants to explain a bill of exchange.



Herman

You were reading banking history while I was trying to sleep.



Corn

Your objection was the lamp, not the banking.



Herman

Both had considerable staying power.



Herman

Kindleberger's geographical observation is that cities tend to form at a break in transport across a trade route. Cargo changes conveyance, crosses a river or gets transferred between routes. People stop there, exchange information, settle accounts and need credit.



Corn

London, Paris, Cologne, Rome, Montreal. Different histories, but rivers and crossing points keep appearing. Berlin's connections involved transshipment between the Oder and Elbe systems. Trade doesn't simply pass through. The interruption gives people work to do.



Herman

A shipment arriving before payment creates a financing problem. A merchant accepting a distant promise creates a trust problem. An uncertain voyage creates an insurance problem. Commerce generates demand for several financial services in the same place.



Corn

Then the banker learns something the merchant doesn't know, and charges him for knowing it.



Herman

Information really is part of the mechanism. Unstandardised transactions under uncertainty benefit from repeated contact. You can compare assessments, find expertise and learn who's reliable without rebuilding your network for every deal.



Corn

I don't think that requires everyone to be friends. Sometimes proximity lets you discover quite efficiently that somebody is dreadful.



Herman

Or find somebody else who'll take the other side. Shared infrastructure reinforces it. Exchanges, clearing arrangements and specialised professional services are expensive. Once assembled, they make joining an established centre easier than constructing a rival.



Corn

That creates a difficulty for the digital explanation. If a screen replaces the trading floor, why doesn't the whole district evaporate?



Herman

The screen removes one reason to stand together. It doesn't instantly redistribute expertise, institutions or relationships. Would you move a complicated transaction somewhere cheaper if every adviser had to learn a new legal environment?



Corn

Probably not. I'd save on rent and spend it explaining the contract. Though that also means the incumbent gets to confuse familiarity with superiority for quite a while.



Herman

It does. Clusters can become complacent. Zurich's rise is useful because it displaced other Swiss centres with formidable advantages.



Corn

Geneva and Basel weren't waiting around for somebody to invent banking. Geneva had connections into Lyon and Paris. Fifteen of twenty-two leading Paris private banking houses were said to have Genevese origins.



Herman

Basel's lending networks stretched north into Baden and Karlsruhe and across into eastern France. Mulhouse was described as a daughter of Basel finance. Those were substantial commercial relationships, not just prestigious addresses.



Corn

Zurich, meanwhile, was originally less important than several Swiss rivals, including Winterthur. Bern had the federal government after eighteen forty-eight. None of that made the eventual outcome inevitable.



Herman

Kindleberger credits Zurich's focal position in the railway age, especially after the Gotthard tunnel, and, in his words, the pushiness of its bankers.



Corn

Finally, a banking attribute that needs no translation.



Herman

The railway altered economic connections. Zurich's population grew elevenfold between eighteen fifty and nineteen ten. That reflects a broader urban transformation, not just bankers arriving with increasingly large briefcases.



Corn

You sound disappointed about the briefcases.



Herman

I had pictured a very handsome procession.



Herman

We go now to Monty, our correspondent, who is apparently at a carnival in honour of financial intermediation.

M

Monty

I am standing here in the middle of the Zurich Avenue float parade, and I can confirm the definition of a global financial centre is being demonstrated live by forty samba drummers who will not let me finish a single sentence about interbank clearing.



Corn

Can you actually hear anyone settling a transaction?

M

Monty

The banner behind me reads Kindleberger, and the dancers ahead of me spell out over the counter in sequins, though the third word has lost two letters and now reads counters, which is honestly still accurate. The railway tunnel float is stuck at the corner, which the committee insists is path dependence and not poor steering.

M

Monty

Monty, signing off from the Zurich Carnival of Intermediation, where the confetti is shredded balance sheets and the band has just started the Bretton Woods medley, so I will hand back to you before the trombones reach Article Four.



Herman

Zurich's interior position then became another advantage during the First World War. Away from the belligerents' borders, it attracted a concentration of international transactions.



Corn

The geography hadn't changed. What it was useful for had changed. A railway connection helps bring business in, and distance from a dangerous border helps persuade business to stay.



Herman

Later, Swiss stability and discretion became an international franchise. Banking secrecy was codified in nineteen thirty-four. But that later reputation shouldn't swallow the earlier story about transport, commercial initiative and competing cities.



Corn

Nor should it freeze the country in a spy film. Automatic exchange of information began in twenty seventeen and effectively ended that old secrecy for non-resident depositors.



Herman

Secrecy from foreign tax authorities, more specifically. Private financial confidentiality didn't vanish. Swiss banks still had a huge cross-border business. The Swiss Bankers Association estimated six and a half trillion US dollars in twenty eighteen, about a quarter of global cross-border assets.



Corn

Losing a selling point doesn't delete the staff, clients and expertise. That's where persistence starts to make sense to me. People can remain for reasons different from those that originally brought them.



Herman

New York adds a different force to that commercial clustering. Its international ascent became inseparable from the growing financial power of the United States, especially the balance-sheet transformation around the First World War.



Corn

There was already a major financial city there. We shouldn't have an ocean liner arrive with America's first banker.



Herman

Fair correction. The war changed its international standing. In roughly four or five years, the United States went from the world's largest debtor nation to its largest creditor. Financing capacity and claims on the rest of the world changed dramatically.



Corn

A creditor has business coming back to it. Repayments, refinancing, new borrowers hoping to join the queue. That's a more durable explanation than New York simply having the right temperament.



Herman

Dollar finance and American institutions gained weight as European powers were strained. Political and military strength increasingly had a financial counterpart, concentrated in a city already equipped to intermediate it.



Corn

Yet Washington didn't have to move to Manhattan. National power could support a specialised financial city while government stayed elsewhere.



Herman

Bretton Woods later embedded that national advantage in an international monetary framework. It opened in July nineteen forty-four at the Mount Washington Hotel, with seven hundred and thirty representatives.



Corn

An ambitious number of people to put in one hotel.



Herman

From forty-four Allied countries. The arrangements created the IMF and what became the World Bank, and put the dollar at the centre of the postwar monetary system.



Corn

The argument over that centre matters. Keynes proposed bancor, a supranational monetary unit for an international clearing arrangement. Harry Dexter White's American plan prevailed.



Herman

The Americans already possessed the currency and creditor strength that Keynes wanted a new institution to organise around. Giving authority over international money to a supranational structure offered Washington less than it offered countries without America's position.



Corn

Winning the argument is easier when everyone owes you money.



Herman

White had institutional and negotiating advantages, not just a cleverer diagram. The dollar's central position reflected resources and leverage. The gold-convertibility arrangement lasted until nineteen seventy-one, though the dollar's international role outlived it.



Corn

Herman, would you call that New York exercising power, or the United States exercising power through machinery concentrated in New York?



Herman

Both, with different actors. Washington sets policy and can impose legal constraints. New York institutions allocate capital, supply liquidity and organise transactions. The Federal Reserve Bank of New York also connects the city directly to monetary implementation.



Corn

That distinction prevents us awarding every banker a foreign ministry. Financing access can influence what a company or government can do, but influence over borrowing isn't identical to authority over treaties.



Herman

What would persuade you that a financial city had become politically powerful in its own right?



Corn

Evidence that its institutions could change choices elsewhere, rather than merely process them. Deny financing, establish terms others have to accept, make an asset widely usable. But I'd still ask who could overrule those institutions. A regulator's address suddenly matters quite a lot.



Herman

That helps explain why the historical sequence Amsterdam, London, New York is compelling without being a universal law. Dominant states can concentrate financial capability in a principal city. Smaller states can also host international finance without becoming dominant powers.



Corn

Now the scoreboard has to face that distinction. Does its top end still look like the old New York and London story?



Herman

New York leads at seven hundred and sixty-one. London follows at seven hundred and fifty-seven. Hong Kong is next at seven hundred and fifty-six.



Corn

A four-point lead over London. Hardly enough room for a triumphal parade.



Herman

Singapore follows at seven hundred and fifty-five. Shanghai and Tokyo come next. That puts six points between the first and fourth centres, not four. The top group is tightly packed, but we should keep the subtraction straight.



Corn

Tight scores also shouldn't become market shares. A city gaining a point hasn't necessarily received a corresponding parcel of somebody else's business.



Herman

These are modelled competitiveness ratings. Seoul follows Tokyo, then Shenzhen and Dubai. Zurich completes the leading group in tenth place. The ranking tells us how the index orders the environment for financial activity, not how much global finance each city owns.



Corn

Political capitals occupy quite different positions. Washington is nineteenth and Beijing sixteenth. Bern isn't in the top twenty.



Herman

Zurich is tenth and Geneva twelfth. Yet London, Tokyo and Seoul combine capital status with leading financial roles. There's no blanket separation either.



Corn

A city can have several reasons for concentrating institutions. Government might be one. Trade might be another. It would be strange if every country assembled them in the same order.



Herman

Six Asia Pacific centres appear in the leading ten. Western Europe has four in the leading twenty, down from seven in the previous edition.



Corn

A meaningful change in that table, though seven to four isn't a halving. Nor does falling outside the leading twenty mean the financial industry has packed up its furniture.



Herman

Paris, Amsterdam and Frankfurt dropping out of that group doesn't make them irrelevant. Rankings sharpen small differences into visible boundaries. That's useful for comparison, but it can exaggerate the drama of crossing a particular line.



Corn

I'd be wary of a mayor buying three skyscrapers to recover one place.



Herman

The practical priorities in the index's survey are less theatrical. Digital infrastructure, including cloud capacity, connectivity and cybersecurity. Attracting fintech and digital-asset businesses. Stronger anti-money-laundering systems and deeper capital markets.



Corn

Compliance is interesting there. People imagine finance wants the absence of rules. Quite often it wants rules that make the next institution willing to deal with it.



Herman

Weak controls can exclude a centre from the networks it's trying to join. Corn, if you were improving a smaller centre, would you chase a famous exchange or build those supporting services first?



Corn

I'd need actual customers before buying a ceremonial bell. Find what business already needs financing, make contracts dependable, and make the surrounding services competent. The transport-break story suggests starting with something people need done.



Herman

Hilbert has left a card for our next contributor. Neville Muddledorf, specialist in local financial geography, field measurement, and assorted practical assistance.

N

Neville

That's me. The last part is the internship. I measured a courtyard for Uncle Hilbert's application to have it recognised as a financial centre. Well, a practice application. He says it was where his acquaintances settled little debts after lunch.



Corn

A courtyard could host transactions, Neville. That alone wouldn't give it the concentration or range of services we've been describing.

N

Neville

Oh, that's much better, actually. I wrote international because one of them had been on holiday. I'll cross that out. Uncle Hilbert wanted the important evidence included, though. Forty-two paces from the doorway to the sandwich counter. I got forty-seven, but I went around a chair.



Herman

The lunch distance does connect to our point about contact. People can exchange information cheaply when they're close together. It doesn't substitute for financial institutions, but you've measured something relevant.

N

Neville

Herman, I did put that on the drawing. People can meet here. Then I drew little arrows. Uncle Hilbert keeps everything in boxes, labelled and dated, with boxes inside boxes, so the drawing has a box now too. My mum is his sister. She said to bring the original, because he'll want the arrows checked.



Corn

He'll have to accept that an index of cities won't rank the courtyard. Keep the drawing, though. It records how the people actually used the place.

N

Neville

I only read half the form. I thought clearing meant making room for everyone, so I moved the chair. That's why my second measurement was shorter.



Herman

Financial clearing establishes what participants owe and arranges the handling of those obligations. Moving the chair improved access, which is a separate service.

N

Neville

Good. I'll keep both on the placement sheet, separately. I did buy a sandwich while I was there. It made asking people where they sat much less awkward.



Corn

That small example does expose a limit in how we talk about clustering. Face-to-face contact isn't magic. People need a reason to speak and something useful to exchange. Putting desks close together won't manufacture that.



Herman

Nor will excellent connectivity manufacture borrowers, issuers or investors. Infrastructure supports a network of business. It can't guarantee the network will choose you.



Corn

This also explains why remote work doesn't settle the geography question by itself. A lawyer can work from somewhere else while still using the laws, institutions and client relationships of a particular centre.



Herman

The activity can disperse physically while remaining attached institutionally. Though… no, that doesn't mean location stops mattering. Hiring, supervision, tax residence and access to clients can still depend on where people and firms are established.



Corn

It makes the visible city an imperfect guide. The exchange building tells you less than the contracts and relationships passing through the place.



Herman

There's another reason not to read competitiveness as geopolitical succession. International finance can connect rival states. A centre can be useful precisely because people with different political loyalties can transact there.



Corn

Until the politics interrupts the transaction. The commercial network remains subject to laws, borders and the decisions of governments, including governments based somewhere much lower in the table.



Herman

A high rank cannot grant immunity from those decisions. Equally, political authority can't simply order a deep pool of expertise and trusted counterparties into existence.



Corn

The common misconception, then, is that calling somewhere a global financial centre automatically places it near the top of the political hierarchy.



Herman

It identifies a concentration of financial activity, and this index compares its competitiveness. Washington can exercise enormous authority from nineteenth place. Zurich can support international finance from tenth without becoming a diplomatic superpower.



Corn

The open question is how far today's increasingly broad competition can redistribute those entrenched networks. Six Asia Pacific centres near the top make the old New York and London picture look less permanent, even while both remain exceptionally strong.



Herman

Our thanks to producer Hilbert Flumingtop, and to Neville for covering the desk.



Corn

For more along these lines, there's episode thirty-five, The Privacy Gap; episode twenty-one, Is Your AI Secretly American; and episode eighteen, Beyond the GPU. This has been My Weird Prompts, the human-AI collaboration podcast. No question too obscure, no rabbit hole too deep.



Herman

If you enjoy following these threads with us, leave the show a review wherever you listen. It helps other curious people find it.



Corn

I'm Corn.



Herman

I'm Herman Poppleberry. See you tomorrow.

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