Economic integration through the central bank eyes. France, 1851-1971

Marianna Astore and Eric Monnet (Paris School of Economics)[1]

Despite its long tradition, the study of regional integration continues to raise considerable interest and debate among economic historians. Understanding whether cities or regions within a national territory are economically integrated is essential to address two questions. First, one wonders if the process of economic growth goes hand in hand with economic convergence - as predicted by the standard neoclassical model - or, on the contrary, is driven by economies of scale and agglomeration effects that concentrate activity in some specific areas. Second, is economic integration necessary to achieve political integration?

Historical data to address these questions are however limited as it is usually not possible to record bilateral transactions between cities or regions in the same way as customs statistics and national accounts do between countries. The most common approaches to the study of convergence, divergence, or agglomeration of economic activity look at production or price data (typically, financial integration is measured through the convergence of interest rates). Other, much rarer works gather data on bilateral transactions between a given area and other regions. However, due to data limitations, this approach has been applied to a very limited number of cases and is restricted to trade statistics (Crafts and Klein 2007; Wolf 2009).

In our paper we take a different approach, making several contributions to this literature. First, we explore the case of modern France, a country for which, in comparison to neighboring nations such as Germany and Italy, we still lack substantial quantitative studies on regional integration in historical perspective. Second, we look at regional integration from the point of view of so far neglected actors, namely central banks, which until now have been overwhelmingly studied in their institutional development and for the evolution of their monetary policies (both in a national and international context) rather than as local makers of private credit markets (with the notable exception of Bazot 2014). Third, we create a new dataset on the volume of commercial bills (re)discounted by the Banque de France in about two hundred cities from 1851 to 1971.

As in other countries of continental Europe, in France the central bank was a key institution designed to integrate credit markets through rediscounting of commercial bills at a unique discount rate all across the country. The fact that bills could be discounted at the same price everywhere does not necessarily imply that inter-cities financial and commercial transactions followed. Thanks to the records of the central bank, we can know in each city if the bills discounted by the central bank were drawn in the same city, in another city outside Paris, in Paris, or outside of France. In so doing we provide the first, comprehensive geographical overview of the discount activities of the French central bank. This offers a unique way to assess whether trade was still local or if a given city was involved in trade with other areas. As documented by a very large literature (Kindleberger 1984), commercial bills were in fact the main form of financial transactions in Europe until the second part of the twentieth century.

As a proxy of financial and economic integration, we compare bills discounted by the central bank that were drawn locally and those drawn from outside the respective city. We expect the share of discounted bills drawn locally to be lower in cities that were financially and economically more integrated with the rest of France. We build a set of four main indicators:

- R1 – percentage of cities with more discounted bills drawn outside than in the city (in terms of number of bills);
- R2 – the same of R1, but in terms of value of the bills drawn;
- R1 and R2 both weighted by population and weighted by the share of total discounts.

[1] Corresponding author: Marianna Astore; e-mail: marianna.astore@psemail.eu.

We run the analysis first at a city level and then at provincial level (looking at the French *départments*). To look at integration with foreign countries we built specific indicators that consider bills drawn abroad over bills drawn nationally.
Preliminary results show that, overall, the main increase in integration is observed during the 1920s; this is consistent with the exceptional spread of bank branches in interwar France pointed out by Bonhoure *et al.* 2021. However, the banking crises of 1930-1931 and the Great Depression were associated with a meaningful decrease in the level of integration together with an increase in the heterogeneity across cities. After World War II, regional integration caught up with the late 1920s level.