

Anatomy of a financial-centre crisis: a framework for analysis

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The history of the Geneva fairs makes it possible to derive a framework for analysis that can be applied to other financial-centre crises, whether historical or contemporary. This framework has six dimensions.

The first dimension is sovereignty risk. A financial centre may be struck by the decision of a third state, which forbids its nationals to use it, restricts the access of its institutions to its market, imposes sanctions or demands information. The centre targeted does not control that decision; it can only anticipate its probability and limit its effects.

The second dimension is regulatory arbitrage. A competing centre may offer more favourable conditions: lighter taxation, legal certainty, protection of property, specialised courts, ease of residence. Lyon's privileges belonged to this logic. Free zones, preferential tax regimes and the international financial centres created by states are their heirs.

The third dimension is the network effect. The value of a financial centre for each participant depends on the number and the quality of the other participants. This property protects an established centre as long as the network remains stable. It becomes a threat when the network begins to unravel, because the departure of some participants reduces the centre's attraction for the others and may set off a cumulative movement.

The fourth dimension is concentration. A centre specialising in one segment — the luxury trade in the past, cross-border wealth management or the trading of certain commodities today — is exposed to the transformations of that segment. Specialisation, which creates excellence, also creates vulnerability.

The fifth dimension is the capacity for alliance. A centre that can mobilise allies with an interest in its survival enjoys a measure of protection. The Swiss cantons supported Geneva in 1462 because their tolls depended on it.

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Today the question arises in terms of interests shared with the centre's commercial and financial partners.

The sixth dimension is the capacity for reinvention. A centre that loses one activity can develop others, provided it has the necessary human, institutional and financial resources. Geneva, which managed to reinvent itself after the decline of the fairs, would have to do so again on several occasions.

Dimension	Illustration in 1462	Question to ask today
Sovereignty risk	royal prohibition and sanctions against offenders	which foreign decisions could restrict the access of clients or institutions?
Regulatory arbitrage	fiscal, legal and succession privileges granted to Lyon	which centres offer more favourable conditions, and on which points?
Network effect	departure of the French merchants, then of the bankers	which pivotal actors, if they left, would draw the others after them?
Concentration	specialisation in luxury goods	what share of revenues depends on a single segment or a single clientele?
Capacity for alliance	intervention of the Swiss cantons	which partners have an interest in the centre's survival?
Capacity for reinvention	Reformation, Refuge, new industries	which skills and which institutions make it possible to develop new activities?

Worked example. In a financial centre bringing together n participants, the number of possible bilateral relationships is $n \times (n - 1) / 2$. With 100 participants there are 4,950 relationships; with 80 participants only 3,160 remain. The departure of 20 per cent of the participants therefore reduces the number of possible relationships by more than 36 per cent. This non-linearity explains why financial-centre crises accelerate: each departure reduces the centre's attraction for those who remain by more than a proportionate amount.

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