The downgrade of the United States’ long-term debt rating in August 2023 sparked a flurry of significant reactions worldwide.[1] Interestingly, Fitch, the credit rating agency responsible for this reduction, primarily justified it based on a multiple regression rating model that considers eighteen variables.[2] Among others, it pointed to an erosion over the years of the country’s fiscal and debt governance, notably highlighted during last summer’s contentious debates and last-minute agreements found among US lawmakers concerning the suspension of the country’s debt limit. The fear that investors would divest from what had up to that point been considered the most secure securities and global financial reference point was evident. To some extent, this recent incident served as a reminder of the quasi-normalized role that statistical models play in assessing the creditworthiness of sovereign borrowers, even the most highly respected among them.

Has it always been this way? Not according to Quentin Bruneau’s timely book, States and the Masters of Capital. In it, he illustrates that the pre-dominance of statistical models promoted by major institutions such as credit rating agencies and, more importantly, big joint stock banks in assessing the creditworthiness of sovereign borrowers merely constitutes the recent culmination of a historical process spanning the past two centuries. That is, we find ourselves currently in a unique world of sovereign lending, inhabited by specific types of actors at its center who possess a distinct understanding of the sovereigns they lend to. Yet according to Bruneau, the past two centuries have witnessed a profound shift between two worlds of sovereign lending—the old and the new—each dominated by different types of financiers, each relying on distinct forms of knowledge to comprehend the sovereigns they had been dealing with. In this way, Bruneau aims to recenter a figure he describes as often overlooked by political scientists and political economists, namely the financiers themselves—whom he compares to Alphonse Daudet’s “l’Arlésienne,” an epitome of the “unseen character.”
Bruneau’s task is not a simple one. Briefly, the book proposes avenues for reflection on how to address the question of how international financiers think about states. Bruneau’s answer to this question is relatively straightforward. He begins with the premise that the study of financiers’ thoughts should be understood as a subset of the history of international political thought. However, this transposition is not as clear-cut as it may seem, as financiers, unlike diplomats or political thinkers, rarely, if ever, write clear treaties detailing their thoughts. Given this observation, Bruneau suggests that one should instead examine the practical tools that international financiers utilize to think about sovereigns. Drawing on the work of Bernard Cohn, Bruneau states that these tools should be viewed as forms of knowledge, namely, stable and relatively enduring ways of understanding and representing specific entities (p. 16).[3] One specific area where Bruneau suggests identifying the characteristics of the different forms of knowledge that financiers have relied on to evaluate sovereigns over time is education. More precisely, he proposes studying the educational curricula used by institutions where financiers learn to understand sovereigns (chapter 1).

Given these methodological constraints, the book is then divided into two parts, each shedding light on distinct but chronologically overlapping worlds of sovereign lending: the old and the new, their practitioners, and the crucial knowledge they relied upon. The first part, “The Old Sovereign Lending,” sets the stage, painting a picture of the nineteenth and early twentieth centuries as a time when merchant bankers played a central role in international finance, especially in sovereign lending. This market was often characterized as heavily intermediated during this period, primarily by a particular class of financiers. At the core of this world of intermediated sovereign lending were indeed transnational families, based in London or Paris, who shared similar ethnic (Germanic) and religious (Jewish or Protestant) affinities. These merchant bankers ensured that their trade remained within their respective families, thus ensuring both trust and the transgenerational longevity of their assets. Importantly, as one of Bruneau’s main arguments, these families, besides generating profits, also sought to acquire social status for its own sake. In this world, the Rothschilds, Barings, Fuggers, Mallets, and Hottinguers all maintained important personal connections with various princely courts. Financiers indeed relied heavily on networks and, more crucially, reputation in their trade, ensuring that they acted as trustworthy intermediaries between lenders and borrowers worldwide, which was particularly crucial in a world marked by information asymmetries, where investors often had little to no information about the creditworthiness of sovereigns (chapter 2). In such a world, merchant bankers relied on a unique form of knowledge known as “gentility” to understand the sovereigns they dealt with. This knowledge was essentially based on a set of manners and practices, reminiscent of diplomats who spent time at the courts of various sovereigns to get to know them better, rather than relying on statistical data to assess creditworthiness. Merchant bankers who engaged in high finance could acquire gentility by attending British public schools and universities, less to obtain economic knowledge than to learn the art of behaving like courtly gentlemen and the connections that could be gained in these institutions. Additionally, gentility could be acquired through nobility, marriage, or estate construction, aligning perfectly with the aspirations of British and, subsequently, North American merchant-banking families engaged in sovereign lending and their pursuit of social status (chapter 3).

The second part of the book, “The New Sovereign Lending,” delves into the emergence of the “new” world of sovereign lending in the wake of significant transformations in international finance defining the second half of the nineteenth century onward. Here, the central actors differ greatly from their predecessors. Merchant-banking families gave way to joint stock banks, gradu-
ally rising to prominence following critical legal innovations in the second half of the nineteenth century. These joint stock banks, with an initially more “national” than “international” structure, were relatively less integrated into the older transnational structures of financial cooperation. Nevertheless, they gradually developed into key players, especially within the more illiberal European political landscapes. Importantly, these new actors from the world of joint stock banking were, as Bruneau writes, outsiders in the realm of sovereign lending, and thus faced challenges in their ability to engage with and understand sovereigns. This challenge was particularly evident in Anglo-Saxon polities, which, at the time, were still being dominated by older merchant-banking families (chapter 4). However, this new category of actors gradually developed its own system of knowledge to assess the credibility of sovereigns. Joint stock banks benefited from the contemporary development of statistics (namely, the description of states through quantifiable facts), particularly in Germany. This included its teaching and dissemination in newly established business schools such as the École des hautes études commerciales, the London School of Economics, and the German Handelshochschulen, from which joint stock banks hired many graduates. As illustrated by Bruneau using the precocious historical example of Crédit lyonnais, this transmission led to the emergence and consolidation of a new approach to engaging with, understanding, and most importantly, rating sovereigns, namely, the systematic application of statistics to sovereign lending (chapter 5). Nevertheless, merchant bankers from the old world of sovereign lending remained dominant until the interwar period. This era witnessed a shift in the world’s financial center from London to New York and, with it, the emergence of a new set of actors who also favored statistical forms of knowledge to evaluate sovereigns, namely, rating agencies, and the League of Nations. These even established divisions dedicated to analyzing the creditworthiness of states. Taking advantage of these developments, joint stock banks eventually benefited from the growth of the Euromarket, which allowed American and European banks to circumvent capital controls imposed by the Bretton Woods system, in turn solidifying their role as indispensable players in the realm of sovereign lending. By issuing loans to a myriad of new sovereign borrowers, the business of joint stock banks, in turn, truly took off in the last third of the twentieth century. This also led to old merchant bankers adopting statistical modeling as a means to evaluate sovereigns and the emergence of new forms of regulation to oversee these developments (chapter 6).

Spanning less than 150 pages, States and the Masters of Capital presents an engaging narrative, with each chapter clearly stating its subject matter. It serves as a useful resource that offers insights into some of the complex social and economic dynamics that have shaped and still shape sovereign lending. More importantly, it historicizes and, in turn, contextualizes the foundational role of statistical models in assessing the creditworthiness of states. This concise and well-written book notably draws from a selection of influential works in the historical study of sovereign lending from recent years, which have focused on the microfoundations of financial markets. This, in turn, makes it a good introduction to the history of sovereign lending for students of political science and political economy.

As is evident from the above summary, Bruneau’s book is undeniably ambitious in scope. It traces a multifaceted history encompassing the political, social, cultural, and legal aspects of the world of sovereign lending over the past two centuries. However, as a historian, the reviewer could reproach that the book tries to do too much, perhaps at the expense of certain methodological and historiographical contributions. For instance, there is the sense of an unfulfilled promise as one reaches the end of the book. It would have been fascinating to see the research strategy proposed
by the author—that is, looking for types of knowledge that different groups of international financiers adopted through their education—explored more thoroughly throughout the work. One might indeed regret that the study of educational curricula, which the author promised would provide insight into how financiers come to think about sovereigns, eventually comprises fewer pages in the book than one might have anticipated. Furthermore, while Bruneau nicely summarizes various works by historians studying sovereign lending, there appears to have been a missed opportunity to delve deeper into the kinds of materials frequently employed by historians to gain a more profound understanding of the inner workings of international finance and financiers (such as their correspondence).

One may perhaps also consider the significance of some of the central arguments presented in this book. Take, for example, the assertion that merchant bankers from the old regime “had no reliable information about sovereigns’ finances” (p. 29), and that the nineteenth century was “a world with almost no reliable quantitative information about sovereigns” (p. 44). This seems to offer a positivistic judgment regarding the type of information necessary to assess a sovereign’s health. Yet Bertrand Gille also revealed the essential role of extensive correspondence networks supporting the activities of financiers such as the Rothschilds. While gentility certainly played a role in facilitating a closer relationship with politics, it may also sometimes have expanded access to a range of government actions in support of international finance. In the end, gentility perhaps constituted one form of knowledge among many in the arsenal of information technologies available to financiers of the “old” world.

Even more intriguing is the book’s thesis that, based on some of their own testimonies, financiers of the caliber of John Pierpont Morgan or Gerson von Bleichröder were “as much status-seekers as they were profit-seekers [and that social status was] an end in its own right” (p. 3, see also pp. 33 and 62 for citations taken from financiers). However, one may still wonder if, in an effort to “focus primarily on the nature of lenders and the way they think about the sovereigns to whom they lend capital” (p. 2), Bruneau sometimes takes these financiers’ words at face value, and, in turn, inadvertently obscures “how” these financiers operated within the world of sovereign lending they inhabited. As highlighted by financial historians, in this world, financiers not only sought to know the sovereigns they were dealing with; status and prestige also had a significant impact on their shares of sovereign debt markets and, consequently, on profitability. They played a role in enabling some to shape institutional leeway within the sovereign debt markets themselves (e.g., formulating contractual clauses, monitoring sovereign borrowers’ activities, and political leveraging within market institutions). Émile Zola famously captured this dynamic in his portrayal of the financier, Gundermann, who dealt with daily queues of solicitors eager to present their business proposals, primarily driven by his esteemed status and reputation.

The goal of States and the Masters of Capital is to shed light on the often overlooked characteristics of the financial “Arlésienne,” which political economists allegedly frequently miss when analyzing the intricacies of sovereign lending. While it nicely achieves this, one can’t help but wonder how the modes of knowledge favored and mobilized by the financiers identified by Bruneau enabled them to navigate, not so much during periods of smooth sailing, but, rather, in those unique and tumultuous moments inherent to the chaotic, anarchic world of sovereign lending—of which the potential global consequences of the legislative conflicts surrounding the US debt ceiling mentioned at the outset of this review serves as a kind of reminder. Nonetheless, this book is a compelling read, and its ambition to create an interdisciplinary bridge is highly commendable. It undoubtedly contributes insights for gaining an in-
interesting perspective on some of the foundational aspects of sovereign lending.

*Damian Clavel is an SNSF Ambizione Fellow at the University of Zurich.*

Notes


If there is additional discussion of this review, you may access it through the network, at
https://networks.h-net.org/h-diplo


URL: https://www.h-net.org/reviews/showrev.php?id=59261

This work is licensed under a Creative Commons Attribution-Noncommercial-No Derivative Works 3.0 United States License.