

*Where Did European Banks Go During the First Globalization? An Augmented Gravitational Approach to the Spatial Distribution of Multinational Banking*

The multinational expansion of European banks was a critical aspect of the first globalization. Why did they move and where did they go? This paper, based on a unique panel data set covering the foreign branches of European banks in a sample of up to 35 potential host countries, adopts an augmented gravity approach in order empirically to investigate the role of geography, institutions, and economic integration in banks' decisions to expand abroad. The model is estimated at micro-level for banks and banking places, and controls for the impact of host-country informational development, colonial links, trade and capital flows, spatial variables, and clustering effects due to increasing returns from externalities. The paper aims not only to provide a better understanding of the "fundamentals" driving banks' international expansion before World War I, but also to enhance comparisons with recent studies of late-twentieth-century international banking and emphasize spatial similarities and differences with the recent wave of financial globalization.

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