Are We Sentenced to Financial Globalization?*

Brahim Gaies
IPAG Business School, Paris
Stéphane Goutte
University Paris 8 & Paris School of Business
Khaled Guesmi
IPAG Business School, Paris &
Telfer School of Management, University of Ottawa

Abstract

Whether financial globalization is both uncontainable and irreversible is a question that warrants serious consideration in this era of international financial crises. While Calomiris and Neal (2013) contend that the phenomenon dates back to the dawn of history and is the "natural order of things," Bastidon-Gilles et al. (2010) consider it an institutional alternative to the Bretton Woods system. In this paper, we propose a different reading of the emergence of financial globalization. We marshal historical evidence to demonstrate that financial globalization took its first steps starting from the First Industrial Revolution, was stemmed between the two world wars and during the post-war decades of economic growth known in France as the Trente Glorieuses, and then rose to become a global paradigm in the 1970s following neoliberalism's return-match victory over state interventionism. It is therefore a political construction and not inevitable.

1. Introduction

The dire consequences of contemporary financial crises raise a salient question concerning financial globalization: Is it in the "natural order of things,"[1] which would explain its irreversibility

* We would like to thank Isabella Morgott, University of Paris 1 Panthéon-Sorbonne, for the intellectual contribution she made to this paper with her linguistic skills.
[1] As argued by Mairesse and Rochelandet (2015) in Economie des arts et de la culture,

in time and space, since in this case it would go back to the dawn of civilizations, or is it instead a process emerging from a political will that has institutionalized it internationally and made it a compelling undeniable global paradigm?

Only a historical study of the origins and development of financial globalization can provide conclusive answers. Although problems relating to the history of the internationalization of capitalism have been widely discussed ever since the work of Karl Marx, Max Weber, Fernand Braudel, Werner Sombart, Michel Beaud, and others, not many economists and historians have focused specifically on financial globalization's genesis. Among the few studies that have addressed the topic, Bastidon-Gilles et al. (2010) argue that the advent of financial globalization was the direct result of the collapse of the Bretton Woods system, the fruit of the failure of regulated financial capitalism as it gave way to liberal financial capitalism from the 1970s onwards. According to this approach, financial globalization is a modern political construction resulting from the dominance of the liberal ideology and could therefore break apart upon the rise of a new post-liberal ideology. On this basis, one can pose the following question: If financial globalization is a product of economic liberalism, is it possible to identify its beginnings in the mid-19th century, when the market economy reached its peak in Europe with the First Industrial Revolution?

By contrast, Calomiris and Neal (2013) argue that the basis of financial globalization has been established since Ancient Rome; that the phenomenon has always manifested itself in societies in the course of history; and that its present form is merely an extension of a process initiated with the first civilizations. Seen in this way, financial globalization is part of the natural order of things and, by im-

---

this term is inspired by Quesnay's conceptualization of the matter in Le tableau économique (1758), where he suggested the existence of a set of natural and universal laws which determined the economy prior to any social contract. These laws represented what he called "the natural order", which had to be followed in order to promote the collective welfare. Mairesse and Rochelandet also underscore that this concept inspired Adam Smith and classical economic thinking in general.

plication, inevitable. However, as financial globalization is fundamentally defined as the expression of financial market liberalization on a domestic and international scale, is it relevant to believe in its existence in pre-liberal economies?

In this article we propose a different reading of the emergence of financial globalization. We argue in section 2 that the first phase, from antiquity to the 19th century, corresponded to cross-border financial flows that were practiced by the inhabitants of the planet before the rise of liberal financial capitalism. We then turn to the period from the 19th to the beginning of the 20th century, when, with the First Industrial Revolution, which was both a result and a catalyst of the development of market finance in England, in Europe and then in America, the world witnessed the inception of financial globalization (section 3). Next, we look at the inter-war years and those of the *Trente Glorieuses*, in other words, the period stretching from 1914 to 1973 (section 4). International conflicts destroyed free trade and led to a state of near economic autarky among nations. In addition, the period saw the Great Depression and then, a few decades later, the advent of an era of economic prosperity under the ideological governance of the welfare state, which ultimately halted the advance of financial globalization. Finally, we briefly examine the period from 1973 onwards, the present era of financial globalization (section 5), during which it has been institutionalized and elevated to the paradigm that it is today by supranational bodies following the victory of neoliberalism over state interventionism.

Throughout this reading, we will be complementing the analysis of Bastidon-Gilles et al. (2010) with an emphasis on the pre-war period. In parallel, the fundamental historical distinction that we draw between the ancient order of international financial exchanges and the modern form of financial globalization will allow us to criticize the position of Calomiris and Neal (2013).

2. International financial exchanges before financial globalization: from antiquity to the 19th century

Long before the appearance of the modern (capitalist and liberal) form of international financial exchanges that we call financial globalization, cross-border exchanges of capital took place between men in a setting that did not always require them to accede to a binding productivism and to the obligation of an infinite and immediate striving for profit. In addition to the desire for pecuniary profit, investors and bankers were also motivated by non-economic purposes. Thus, from antiquity to the 19th century, from the ancient and medieval empires to the age of city-states and then nation-states, a significant part of worldwide financial transactions served to establish political hegemony, to acquire social status, to promote mutual assistance between members of the same clan or family in order to respond to a chivalrous or religious ethic of giving, etc. (Heers, 2012) and especially to set up long-distance trade, very often based on the philosophy of the "faire price" and only profitable in the medium and long term. Money did not produce money without passing through the sphere of the real economy, and economic actors did not seek wealth for the sole objective of endless capital accumulation, at least on a macro scale (Bihr, 2006).

International financial exchanges in ancient and medieval empires

According to Calomiris and Neal (2013), a primary form of cross-border finance first arose in what the historian William Goetzmann calls *The Ancient Financial World*, which dates back to the second millennium BC in Mesopotamia. Exchanges of goods and capital were established between Ur (one of the most important cities in Mesopotamia) and Dilmun (now the Kingdom of Bahrain). Mesopotamian capital in the form of silver money crossed the Persian Gulf with a large variety of commercial products in order to be traded for copper, precious stones and spices in Dilmun. These expeditions were financed by investors who set up charters compara-

ble to early forms of what are now known in France as partnerships limited by shares (*Sociétés en Commandite par Actions*). The investors (sponsors) entrusted their capital to merchants (general partners), who managed the journey of the financial resources and the goods, as well as the transactions. Investors' profits and losses were limited to the amount of their contribution, while the investment manager's liability towards creditors and his potential return on investment exceeded his contribution of capital. The risk was thus proportional to both managerial power and to the amount of capital invested in these association projects.

This cross-border finance, which was in its embryonic state among the Mesopotamians, but also the among Phoenicians, Greeks and Carthaginians, served the maritime trade in goods and slaves. In the first and second centuries AD it developed considerably with the Roman Empire, which extended from Mauretania Tingitane (present-day Morocco) to Mesopotamia and from Britain to Egypt, and which included 20% of the world's population.

A major Roman maritime merchant contract, the "Muziris papyrus," discovered by archaeologists, dates back to the beginning of the formation of the empire (Temin 2006). It tells us that some seven million sesterces had left the Mediterranean Basin and were widely distributed around the world in order to be exchanged for spices, precious metals, commodities and slaves. Lenders received a prime interest rate in excess of the legal limit of 12% per annum, in view of the risk they incurred. However, they were well aware of the reputation of their debtors, since in this capital market, controlled by Rome, information was relatively available, thanks to close cooperation among private banks, the Senate and merchants. In this connection, one must not forget the role of a pre-chivalrous and religious culture that promoted the values of honor, honesty and social allegiance, and one must also consider the sacralization of Roman citizenship by the plebeians and the patricians alike. Having recognized all these characteristics of international finance in the Roman world, Temin (2006) even suggests that the information network developed within this system of finance was more efficient

than any other system created during the following 1600 years when it came to the management of uncertainty, despite the considerable number of stakeholders (Romans and foreign citizens).

Based on these relations, in the Roman financial world it was obviously the real economy that influenced the financial economy and not the other way around, as is the case for current financial globalization. The capital flows that circulated among at least three continents (Europe, Africa and Asia) served mainly to finance trade, especially in wheat and slaves. The flows were not intended for a short-term and direct process of financial capital accumulation, for they were not closed within the financial sphere.

After the division of the Roman Empire in the 3rd century into the Eastern and Western empires, the Byzantine Empire took over the financial system of the known world. The Byzantine currency, the *nomisma*, was constantly on the move aboard the vessels of merchants traveling the Mediterranean, the Black Sea and the Aegean to acquire exotic products prized in the markets of Constantinople. The *nomisma* was for the economy of the Mediterranean in the 11th century what the dollar is for today's international economy, until, with the decline of the Byzantine Empire, it was dethroned in the 12th and 13th centuries by the gold dinar, the currency of the Arab Empire (Bihr, 2006).

International financial exchanges in city-states

Between the 14th and 16th centuries, the powerful merchants of the Italian maritime republics, which had emancipated themselves from the domination of the declining Byzantine Empire, demonstrated their remarkable commercial and financial dynamism in the Mediterranean.

In the 1300s, the Venetian currency, the ducat, was exchanged throughout the Mediterranean world, like the Byzantine *nomisma* in the 11th century and the Arab dinar in 12th century. It drew its strength from the wide scope of the cross-border financial transactions arising from the republic's maritime trade, which extended to

North Africa, the Middle East, the Aegean islands, the Adriatic coasts, Flanders and England (Braudel, 1979).

The financing of these commercial expeditions took place mainly in the business center of Rialto through a system known as the *Incanto* of commercial galleys, an auction system for the award of *carati* in sea journeys. These gave their holders title to part of the galley's cargo. Each holder was liable for losses from the single yearly expedition, up to the amount of his capital contribution. Afterwards, they shared the profits with the vessel owner (Stöckly, 1995).

If, between the 14th and 16th centuries, the Venetian Republic, called by the historian Fernand Braudel (1979) the "Venus of the Seas," was the commercial and monetary driving force of the intercontinental financial hub, the two republics of Genoa and Florence were the bankers of the known world, due to the supremacy of the Venetian merchant marine and the ducat. The prestigious Genoese bank La Casa delle Compere dei Banchi di San Giorgio, whose creation in 1405 was ordered by the Doge of Genoa, Simone Boccanegra, was a source of financing for the Genoese maritime trade, which was booming in the Black Sea and the Mediterranean, as well as for the republic's public expenditure, its merchants, sovereigns, other banks and even European religious bodies (Pezzolo and Tattara, 2008). Likewise, from the mid-1200s the major Florentine banks of the Bardi and the Peruzzi and from 1397 onwards the Medici Bank reigned over European finance. They made loans to princes and kings in exchange for tax advantages, franchises and licenses, which gave them a monopoly on trade in goods in high demand, enabling them to circumvent the ban on usury. The Italian banks also loaned money to the clergy and obtained in exchange the privilege of collecting tithes, gifts and bequests to the benefit of the papacy. These arrangements produced extremely generous rewards for the banks, especially in the reign of the Avignon Pope John XXII (Munro, 2013).

The historical outline we have sketched immediately raises the question of the extent to which international financial exchanges between the 13th and 16th centuries resembled contemporary financial globalization.

Concerning the flows of capital that circulated mainly in Europe and Asia, unlike contemporary cross-border flows they did not chiefly serve pure financial speculation by private actors in a liberal market, but were used to finance trade, war and the conquest of political power. Moreover, although linked by trading posts, the degree of interdependence of the circulating capital in the four continents (Europe, Asia, Africa and America) was not such as to be conducive to the propagation of international systemic crises by financial contagion. By contrast, the interconnection of the international financial sphere by capital flows in the modern era of financial globalization can hardly be overstated in the wake of the global crisis of 2007-11 ignited by the subprime lending crisis in the United States.

Furthermore, the banks of the 13th through the 16th centuries were commonly monitored directly or indirectly by the monarch or the emperor, who incarnated the state's full power, unlike the majority of modern financial colossi, whose corporate construction favors the conglomerate of private capitalist interests. The same applies to the *Incanto* system, presented by Fernand Braudel (1979) as an important trailblazer of contemporary stock markets, but which, being under the direction of the Venetian Senate, differed intrinsically from stock markets in the 21st century, such as America's NASDAQ and the New York Stock Exchange (NYSE), whose owners are not national governments but international private groups.

International financial exchanges in nation-states

Regarding trade in goods and capital, from the end of the 16th century to the beginning of the 18th century the Dutch economy imposed itself on the entire world, superseding the Italian city-states. The Dutch success was founded upon a developed financial system that mobilized the funds needed to construct a dynamic fleet and outfit maritime expeditions by commercial companies in Asia and America. The most famous of these were the Dutch East India Company (1602) and Dutch West India Company. They were created to exploit the riches of the Asian, American and African colonies, and

to strengthen the political domination of the Dutch Republic in a world where the heightened tensions between European countries erupted in 1618 in the devastating Thirty Years' War (Gelderblom et al., 2013). In the light of their cross-border nature, they may be regarded as the first forms of modern multinational companies. However, today's corporations, the actors of financial globalization, are driven mainly by economic interests and are subject to the laws of the market. They are therefore primarily economic operators, whereas the Dutch East India Company, apart from its commercial activities, contributed militarily to preserving the Dutch Republic's hold on the territories it occupied. Similarly, besides bringing profits to its shareholders, the Dutch West India Company served the political interests of its homeland by engaging in privateering against Spanish and Portuguese vessels (Braudel, 1979). In both cases, the setting was far from simply economic, but geopolitical and not limited to the private interests of the commercial sector (Gelderblom et al., 2013).

The operation of these companies, and of their English, French and, later, Swedish counterparts, proves that the financial circuits in the Eurasian world followed mainly two paths: "financial capital – goods – financial capital", and "financial capital – expansion of colonial territories by expeditions and war – goods – financial capital". By contrast, as Chesnais (2004) points out, since the 1970s there has been an increasing predominance of a "short-circuit" ("financial capital – financial capital"), which turns the capital market into the alpha and omega of all economic activity.

One of the best-known indicators of the markedly state nature of global finance in the 17th and 18th centuries is the appearance of the first European central bank, namely the Bank of England. Established in 1694 by the Act of Tonnage, the Bank of England was created essentially to grant loans to the state that would meet the expenses of the Nine Years' War (1688-1697) against the France of Louis XIV and its ally the Ottoman Empire (Murphy, 2010). Regarding its governance, until the beginning of the 18th century the Bank was a "valet of two masters: shareholders and the state," in the

words of Anne Murphy (2010). Obviously, this arrangement could not fail to generate internal conflicts, yet it served the interests of both "masters" by subjecting the shareholders' desire for profits to a "patriotic" constraint, which spurred them to contribute to building up their nation's military power with a part of their accumulated capital. The funding for the construction of the Royal Navy, which made 18th-century England the "Queen of the Seas", the world's leading merchant power and the cradle of technological innovation, before England became the pioneer and driving force of the Industrial Revolution, is the archetype of a project produced by a public-private partnership (Belze and Spieser, 2007).

Nevertheless, British finance of the 18th century, which orchestrated the international financial system, was not yet a symbol of transnational liberal financial capitalism, embodied in financial globalization. In order to get there, it was necessary to pass through two stages. The first was the maturation of financial capitalism at the domestic level and its transformation from a state form ultimately into a liberal form focusing increasingly on a larger, if not global, market. The second was an ideological evolution which, as John Maynard Keynes would have said, would shift the ideas of men of action, who were by no means immune from the doctrinal influence of contemporary economists, from faith in a strong state to faith in private property and the laws of the market.

3. The first steps of financial globalization: from the 19th century to the beginning of the 20th century

The railway boom of the 1840s stemming from the First Industrial Revolution could not have taken place without the existence of highly interconnected transatlantic financial centers (London, Paris, New York) that enabled European investors with a large saving surplus to create colossal projects in America. Moreover, in order to play its role of growing importance as a catalyst of industrial growth in developed and emerging countries, finance industrialized itself on

an international level: it developed into a separate industrial sector regulated by the forces of a henceforth transnational market. It was this liberal financial capitalism that, unlike industrial and commercial capitalism, was able to grow, *sui generis*, on a national and international scale, through shareholding. In fact, it "auto-hypertrophied" so quickly that it ended up detaching itself from the real economy. For instance, already between 1870 and 1913, British financial investments increased tenfold, to exceed 150% of annual national output (Bastidon-Gilles et al., 2010). Worldwide, the stock of capital invested abroad grew from $1 million in 1820 to reach $48 million in 1913, far outstripping the growth rate of international trade (Bénichi, 2006). Financial flows, consisting mainly of portfolio investments and treasury bills, spread from Europe (the United Kingdom, France, Germany, the Netherlands, Belgium, Switzerland and Sweden) to the emerging countries of the era. More precisely, 90% of the financial flows exported in the world were European, of which 50% were British. Contrary to popular belief and to the prevailing opinion in the golden age of city-states and then that of nation-states, the production and exportation of this financial capital were not essentially based on a surplus generated from the profits on long-distance trade in goods. Indeed, the majority of the European powers ran trade deficits, including England, whose trade deficit stood at around 86 million pounds in 1890 (id., 2006). It was mainly by remaining consistent within its own (financial) nature that financial capital was reproduced within 19th-century Europe, before "sprouting wings" and becoming transnationalized in America and then in Asia. Thus, this financial capital, contrary to the prevailing pattern since antiquity, did not come from long-distance trade whose expansion it would then serve. This is the main structural divergence between the world financial system from the mid-1800s to the early 1900s and the systems that preceded it.

Furthermore, if finance at the time of the Industrial Revolution foreshadowed contemporary finance, this was because it was already a separate industrial sector, with its own engineering, and an international architecture. From the 19th century onwards, European

and American financial centers were agglomerations of banks around stock markets, not near trading posts, as had been the case for Italian banks. Located next to the international stock markets, the banker of the 19th century, like that of the 21st century, was the leading actor of the world economy: investor, money merchant, service provider, shareholder of industrial and commercial companies; in short, the core of all onshore and offshore markets. Besides, in France, during the Industrial Revolution and well before the industrialization of societies, banks were the first companies to issue shares. In 1870, there were nine banks listed on the *Bourse de Paris*; less than twelve years later, their number had risen to 40, including seven foreign banks. The banks encouraged stock market speculation so much that the volume of funds they mobilized to that end increased tenfold between 1852 and 1881 (Belze and Spieser, 2007). By contrast, from antiquity to the 18th century, it was the merchant who played a central role in the economy, and he had to be a "merchant-banker" or the banker of the king, the sultan, the emperor or the clergy in order to achieve social and economic advancement.

Supported by the increase in power of the banks, which speculated directly using their own funds and indirectly by lending to other speculators, the industrialization of finance led to the financialization of the economy and thereby to a profusion of financial crises in the 1800s. The damage these caused reached both the developed and the developing countries of the time. In the mid-1800s, speculation in railway shares led to stock market crashes and bank failures on an international scale.

In England, the enthusiasm for railways was so great that the number of listed companies increased from 48 in 1844 to 190 in 1847 before stock prices began to plummet, destroying investors' trust in railway companies until the 1890s (id., 2007).

In the United States, beginning in 1830, the Wall Street stock exchange was the scene of major speculation by foreign investors, especially European investors, in railways such as the Mohawk-Hudson. Then, after the creation and massive use of new complex financial products that allowed these companies to convert

bonds into shares and investors to make large short sales, panic gripped New York's financial center as the lack of transparency fueled mistrust (id., 2007). After a brief recovery in the 1850s, the discovery of gold in California, improvements in transportation and the emergence of new communication technologies, particularly the telegraph, fanned excessive optimism among economic players. Banks demonstrated great laxity in lending, thereby favoring an over-abundance of credit and consequently abetting not only inflation but also speculation (some of it leveraged). This second financial bubble built until it burst in 1857; in the wake of the bankruptcy of the Ohio Life Insurance and Trust Company and the classic and catastrophic pattern of bank runs (a pattern that characterizes the majority of the crises of financial globalization), a stock market crash occurred. Reinforced by a credit crunch, this crash resulted in the bankruptcy of many railway companies, but also in the creation of new, larger companies, illustrating Joseph Schumpeter's description of capitalism as a movement of "creative destruction." Despite the ravages it wrought, speculation continued to thrive, and less than twenty years after the Panic of 1857 another crash rocked the United States and Europe (id., 2007).

The bank crises that swept Europe in May 1873, brought on by rampant speculation in construction work, mainly in Paris, Vienna and Berlin, testify to two important facts. First, the European financial system was so interdependent that it allowed the transfer of financial "epidemics" (speculative bubbles, toxic financial assets, overvalued financial products, etc.) from one economy to another through spill-over. Second, considering the contribution of the crisis in May 1873 to the stock market crash in the United States (given the involvement of European banks in the financing of US railways), this interdependence was transatlantic, linking developed (European) and emerging (American) economies.

Like that of the 1850s, the Euro-American financial crisis of 1873 was provoked by speculation in railway stocks. In Prussia, for instance, 500 railway companies were created in 1872 with a total capital of 1496 million marks; just one year later, only 72 of them were

still on the market, with a total capitalization of 538 million marks. In the United States, the failure of Jay Cooke & Company, which financed the largest railway companies, such as the Northern Pacific, set off bank runs and brought down a great number of banks. In the ensuing panic, the New York Stock Exchange was forced to close its doors for ten days on September 20, 1873 (Gilles, 2009).

The scenario of the crises of 1857 and 1873 did not cease to repeat itself in the 19th century (1882, 1890, and 1893), also causing a succession of losses in new emerging countries (after the United States in 1873, Argentina's turn came in 1890). In general, the financing of the railway industry and the associated speculations lay at the heart of the problem (id., 2009). These intercontinental crises demonstrated the fragility of transnational liberal financial capitalism. It would seem that we only have to change the dates to turn this reality into that of contemporary financial globalization and its crises.

4. The eclipse of liberal financial capitalism: from 1914 to 1973

The seemingly inexorable march of financial globalization in the 19th century ground to a halt in the period encompassing the two world wars and the Great Depression, as well as the post-war advent of the Bretton Woods system and the *Trente Glorieuses* during which the welfare state supplanted liberal capitalism.

The inter-war years

After the two world wars, the decline in financial globalization was striking, the share of foreign assets in industrialized countries' GDP having decreased from an average of 50% between 1870 and 1914 to an average of 10% in 1945 (Obstfeld and Taylor, 2003). Although it continued to operate, liberal financial capitalism lost its ability to transnationalize itself, owing to the delinking of key financial centers in Europe as a result of military conflicts and the use of multiple currencies in international finance. From 1914 onwards, international investors gradually focused on the New York financial

marketplace and used the US dollar rather than the British pound for their transactions, especially since European countries, locked in combat, ended the convertibility of their currencies and regulated gold flows or even blocked them from leaving their countries in order to finance their armed forces. Conversely, on the other side of the Atlantic, the damage was far less severe. The United States, which appropriated 50% of the world's gold, became the leading international creditor, while lending nearly $3 billion to the rest of the world, whereas in 1914 the US had had a total debtor position of $3.7 billion (Niveau, 1992). This change in external positions, combined with the abolition of the gold convertibility of European currencies (including the pound sterling) and the shift of the center of gravity of global finance toward the United States, fostered the multiplicity of circulating currencies, particularly in Europe, and widened the gap between highly instable floating exchange rates. Presumably, the international financial system approached a situation of outright chaos within which, however, liberal financial capitalism, although slowed in its "transnationalization," continued to develop within the American economy. The core of this development lay in the financing of reconstruction in Europe, which lifted the dollar, convertible into gold, to the rank of international currency alongside the pound and stoked the enthusiasm of US economic actors from the early 1920s onwards. For America, this brought years of plenty, with economic growth averaging 2% per year until 1929. According to Portes (1997), it was then that the Second Industrial Revolution reached its apex, based on technological innovation, Taylorism and Fordism, with the automobile industry as its emblematic expression. As with the railway-centered First Industrial Revolution in England, industrial capitalism in the United States was brought to its peak and was then surpassed by financial capitalism. What happened in The City of London in 1873 was more or less repeated on a larger scale on Wall Street in 1929, because of exuberant speculation driven by technical progress and the abundance of credit. The stock market crash on Black Thursday ushered in the Great Depression in the United States and worldwide.

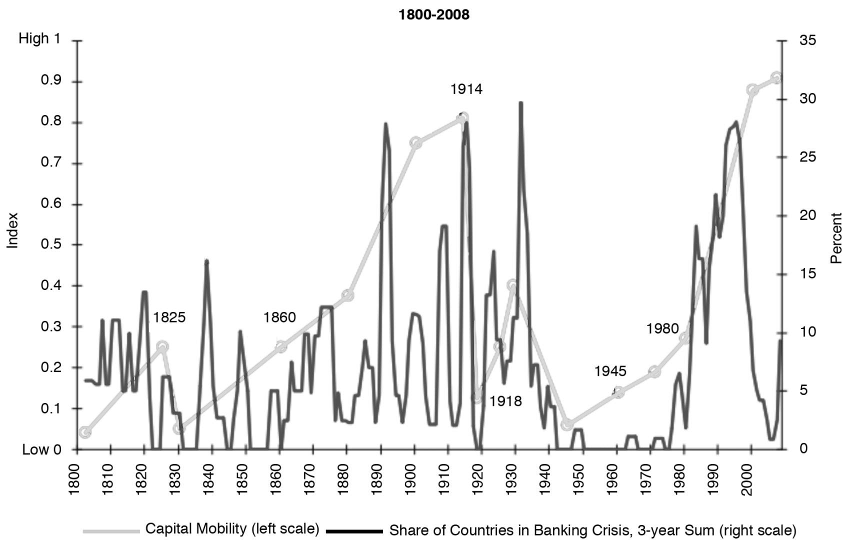
Bretton Woods and the Trente Glorieuses

After the Second World War, measures were taken in every field to promote a convergence of national policies towards a cooperative international equilibrium that would be a factor of collective well-being. In international economic dealings and, more precisely, their financial aspects, the path of collaboration was built through the Bretton Woods system. Within the new international monetary system, states had to intervene to regulate the global financial sphere in order to ensure the prosperity of their respective financial systems. This broke with pre-war liberal ideology and practice, rejecting the ability of non-regulated international capital and gold movements to produce an economically and socially productive balance. In the new dispensation, finance certainly remained capitalist, but operated in markets regulated by public institutions. In three words, it was regulated financial capitalism.

Under Bretton Woods, from 1945 to 1973, global real income recorded an unprecedented leap and the average annual growth rate in the G7 countries reached 4.2% (Bastidon-Gilles et al., 2010). It was a period of nearly full employment; unemployment rates did not exceed 5% in the industrialized countries. It was also the time of the baby boom and of financial *ataraxia*, since, broadly, no banking panic could significantly disturb depositors. Consequently, it would be inexact to claim that this prosperity was due only to Bretton Woods and to the nature of international financial transactions regulated by this system (see Figure 1).

Obviously, other economic and non-economic factors (post-war social peace, the success of the Regulation School, the Fordist system, etc.) contributed to this rise. Nevertheless, the quasi-axiomatic association of Bretton Woods with the *Trente Glorieuses* in the collective memory of economic experts and other observers suggests that the regulated capitalism of the period 1945-1973, institutionalized in the financial sphere by the international monetary system, was a cornerstone of this prosperity. That said, the Bretton Woods system was far from exempt from failures. In fact, had it been perfect, interna-

FIGURE 1
Capital mobility and banking crisis in the world



Source: Reinhart and Rogoff, 2013, p. 4566.

tional finance would never have been able to revert to an intensified version of its capitalist and liberal form. To highlight one of Bretton Woods' main structural defects, the gold-dollar exchange standard on which the system was based was the victim of its own success. Strong economic growth worldwide and in the United States brought an increasing demand for dollars. This gave rise to a latent desire to hold gold as a "safe haven," i.e. as a hedge against a possible depreciation of the dollar. However, the quantity of gold available in the world could in no way cover the volume of dollars issued to meet the need of flourishing international economic transactions, causing bouts of speculation on the related financial product markets and tensions between the United States and countries with large dollar reserves (Bordo et al., 1993). Partly for this reason, Richard Nixon, President of the United States (1969-74), ended the convertibility of the dollar into gold on August 15, 1971, and introduced the transition to a floating exchange rate by phasing out the Bretton Woods system.

5. The transnational ascent of neoliberal financial capitalism: from 1973 to the present

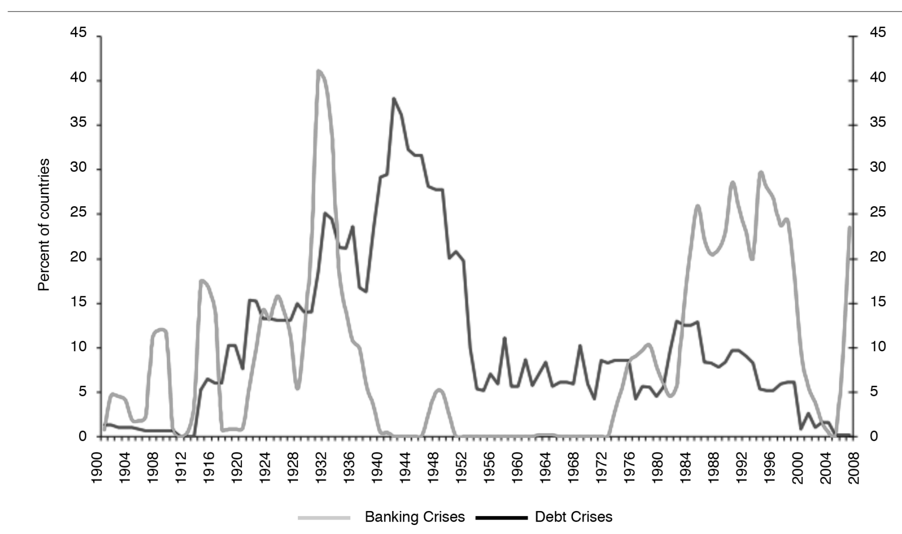
The ascent of financial globalization began against the backdrop of the return of liberalism (known as neoliberalism) and its victory over state interventionism in academic and political circles. This historical movement was evident to observers in the early 1970s, when neoclassical economics dethroned the Keynesian school at the most prestigious universities and in political discourse, in light of the inability of the so-called Keynesian heterodoxy to respond to the paramount global economic problem of the time: stagflation. In this period the two greatest neoliberal thinkers received the Nobel prize for their anti-Keynesian ideas: Friedrich Hayek (1974) and his disciple Milton Friedman (1976). These ideas largely dictated economic policy in Britain and the United States in the years of Margaret Thatcher, a faithful reader of Hayek, and Ronald Reagan, who inherited Friedman from Richard Nixon as his advisor (Audier, 2012). They underpinned the deregulation of the American and British financial markets at the national level and the new liberal orientation of the supranational institutions following the collapse of the Bretton Woods system. Thus, the International Monetary Fund (IMF), which had advised its members against the "marketization" of foreign currencies and the adoption of flexible exchange rate regimes after the Second World War, promoted the floating of national currencies from the beginning of the 1970s (Bordo et al., 1993). Under the influence of the theses of McKinnon (1973) and Shaw (1973), the IMF encouraged developed and developing economies to liberalize their capital flows. Moreover, Fisher (1997) recommended a change in the IMF's Articles of Agreement in order to spur its member countries to deregulate external capital flows in the pursuit of financial openness, the central pillar of globalization.

The contemporary rise of financial globalization occurred in the context of the emergence of Euromarkets, international markets in which borrowing and lending of funds for maturities of from 48 hours to 8 years grew rapidly. Between 1973 and 1988, global trans-

actions increased by a factor of more than 14, from $315 billion to $4,561 billion. At the same time, the expansion of international financial transactions in foreign exchange markets was so fast that it surpassed that of exports of goods and services: between 1979 and 1995, foreign exchange transactions increased by a factor of 17, while global imports only tripled (Bourguinat 1995). Thus, on the Euromarkets, where actors were exempt from the regulations of their respective home countries, after the two oil shocks of 1973 and 1979, the oil-exporting accumulated huge dollar surpluses, of which they invested 80% in OECD countries and lent three-quarters of the remaining 20% to developing countries. The result was excess liquidity followed by insolvency around the globe. International loans were granted to developing economies with low absorption capacity, often purely out of speculation on their untapped oil potential, ultimately leading to loan defaults. Moreover, the practices of Reaganomics (tax cuts coupled with high interest rates) increased the dollar-denominated debt burden of developing countries: Between 1980 and 1981, after interest rates in the United States had risen to approximately 20% – in favor of a transnational rentier finance that was strengthening at an accelerated pace – the interest burden of the debtor countries increased by 300% without their incurring additional loans (Adda 1996). This situation eventually led to a global debt crisis in developing countries, unable to meet debt obligations which were now reinforced by a credit crunch that limited their economic growth. This was one of the first contemporary crises of financial globalization and the harbinger of other crises that have been increasingly violent (in terms of economic and social damage), globalized (in that they have always been propagated in a context of openness) and globalizing (sparing neither developed nor developing countries). Thus, from the 1982 debt crisis in developing countries to the global financial crisis of 2007-2011, passing through the crisis of the European Monetary System (1992-1993), the Mexican crisis (1994), the Asian currency crisis (1997), the Russian crisis (1998), the Internet bubble (2000), the Argentine crisis (2002) and so on, the description of the financial disasters resulting from financial

globalization has pivoted on five terms: euphoria, excess liquidity, speculation, lack of liquidity and economic decline (see Figure 2 below).

FIGURE 2
Banking and debt crisis in the world



Source: Reinhart and Rogoff, 2013, p. 4560.

Consequently, today's crises structurally resemble those of the 19th century, especially that of 1873. Furthermore, given the growth of cross-border capital flows, which reached a peak of 20% of global GDP on the eve of the crisis (2007-2011), compared to an average of 5% between 1980 and 1999 (OECD, 2011), the international financial system remains haunted by the specter of the crises of financial globalization (Gaies et al., 2019).

6. Conclusion

In our analysis of the genesis of financial globalization, we argue that this phenomenon is a purely political construction concurrent with the historical phases of liberal economic domination in Great Britain and the United States, and thus in the world.

Our position jibes with that of Bastidon-Gilles et al. (2010), for we have argued that the rise of financial globalization dates back to the aftermath of the collapse of the Bretton Woods system in 1973, when regulated financial capitalism failed and liberalism rebounded. The liberal resurgence was built on the ideas of the leading theoreticians of the neoclassical school: Friedrich Hayek and Milton Friedman. Those ideas were put into practice in the 1980s with financial market liberalization, the boom of the Euromarkets and the promotion by the IMF of financial liberalization policies, influenced by the work of Shaw (1973) and McKinnon (1973).

We have also argued the thesis of the tandem *financial globalization-economic liberalism* and emphasized that financial globalization began its early development in the mid-19th century in conjunction with the Industrial Revolution, which made finance an international industry. The transatlantic interconnection of financial centers, the faster growth of the financial sphere compared with the real economy at global level, the rise of speculation and market finance, especially in Great Britain and the United States, and the major financial crisis of 1873, may be seen as the beginnings of what we are experiencing in the current era of globalized finance.

Our analysis of the genesis of financial globalization is clearly opposed to that of Calomiris and Neal (2013), who contend that it dates back to Ancient Rome and that it is therefore part of the natural order of things. To critique that position, we sketched out the longest period in the history of international finance, from antiquity to the 19th century, and contrasted it with the intrinsic and structural characteristics of globalized finance. We observed that cross-border trade in capital during that long period was not necessarily liberal and was not always driven by an infinite and immediate seeking for financial profit. From antiquity, when the flows of cross-border, Mesopotamian, Phoenician, Greek, Carthaginian and Roman capital served essentially the trade in goods and slaves; to the age of nation-states, when international finance fueled national projects of public-private partnership that often had economic and political aims (for example, the West and East Indies companies and the Bank of Eng-

land); to the European city-states and the medieval empires, where the first intercontinental bankers set up shop near trading posts and financed public debts and the spending of the clergy – financial globalization was a "financial *ante*-globalization."

In conclusion, we have sought to prove that financial globalization is a modern phenomenon, like the liberal economic domination that has produced it, and is therefore not inevitable. In this sense, the post-liberal world that succeeds our era could forge a different form of financial globalization, one no longer based on international financial crises.

References

Adda J. (1996), *La mondialisation de l'économie*, tome 1, Genèse, Paris.

Audier S. (2012), *Néo-libéralisme(s): Une archéologie intellectuelle*, Paris.

Bastidon-Gilles C., Brasseul J., Gilles P. (2010), *Histoire de la globalisation financière*, Paris.

Belze L., Spieser Philippe P. (2007), *Histoire de la finance : le temps, le calcul et les promesses*, Paris.

Benichi Regis R. (2006), *Histoire de la mondialisation*, Paris.

Bihr A. (2006), *La préhistoire du capital: Le devenir-monde du capitalisme*, Tome 1, Lausanne.

Bordo M., Eichengreen B. (1993), *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform*, Chicago.

Bourguinat H. (1995), *La Tyrannie des marchés: essai sur l'économie virtuelle*, Paris.

Braudel F. (1979), *Civilisation, économie et capitalisme, XVe-XVIIIe siècle*. Tome 2 : *Les Structures du quotidien et tome* 3: *Le temps du monde*, Paris.

Calomiris C., Neal L. (2013),"Overview of the History of Financial Globalization", in G. Caprio (ed.), *Handbook of Key Global Financial Markets*, Institutions and Infrastructure, London, Vol. 1, pp. 3-15.

Chesnais F. (2004), *La finance mondialisée. Racines sociales et politiques, configuration, conséquences*, Paris.

Fisher S. (2011), "Capital Account Liberalization and the Role of the IMF", Intervention at the annual meeting of the IMF, 19 September 1997, in F.-X. Bellocq and Y. Zlotowski, "Les pays émergents dans l'après-crise: L'intégration financière en question?", in *Revue d'économie financière*, no. 101(1), pp. 273-288.

Gaies B., Goutte S., Guesmi K. (2019), "What Interactions between Financial Globalization and Instability? Growth in Developing Countries", in *Journal of International Development*, no. 31(1), pp. 39-79.

Gelderblom O., De Jong A., Jonker J. (2013), "The Formative Years of the Modern Corporation: The Dutch East India Company, 1602-1623", in *The Journal of Economic History*, no. 73(4), pp. 1050-1076.

Gilles P. (2009), *Histoire des crises et des cycles économiques: des crises industrielles du 19e siècle aux crises financières actuelles*, Paris.

Heers J. (2012), *La naissance du capitalisme au Moyen Âge*, Paris.

Mairesse F., Rochelandet F. (2015), *Économie des arts et de la culture*, Paris.

McKinnon R.I. (1973), *Money and capital in economic development*, Washington.

Munro J. (2013), "Rentes and the European Financial Revolution", in G. Caprio (ed.), *Handbook of Key Global Financial Markets, Institutions and Infrastructure*, London, pp. 235-249.

Murphy A. (2010), "La Banque d'Angleterre, valet de deux maîtres: les actionnaires et l'État (1694-1720)", in O. Feiertag and M. Margairaz (eds.), *Gouverner une Banque Centrale: Du XVIIe Siècle à nos Jours*, Paris, pp. 23-42.

Niveau M., *Histoire des faits économiques contemporains*, Paris.

Obstfeld M., Taylor A. (2003), "Globalization and Capital Markets", in M. Bordo et al. (eds.), *Globalization in Historical Perspective*, Chicago, pp. 121-187.

Oecd (2011), "Getting the most out of international capital flows", in *OECD Economics Department Policy Notes*, no. 6.

Pezzolo L., Tattara G. (2008), "'Una fiera senza luogo': Was Bisenzone an international capital market in sixteenth-century Italy?", in *The Journal of Economic History*, no. 68(4), 2008, pp. 1098-1122.

Portes J. (1997), *Histoire des États-Unis: de 1776 à nos jours*, Paris.
Reinhart C., Rogoff K. (2013), "Banking crises: an equal opportunity menace", in *Journal of Banking & Finance*, no. 37(11), pp. 4557-4573.
Shaw E.S. (1973), *Financial Deepening in Economic Development*, Oxford.
Stöckly D. (1995), *Le système de l'Incanto des galées du marché à Venise (fin XIIIe-milieu XVe siècle)*, Leiden.
Temin P. (2006), "The Economy of the Early Roman Empire", in *Journal of Economic Perspectives*, no. 20(1), pp. 133-151.
World Bank (2014), *Global economic prospects: Shifting priorities, building for the future*, vol. 9, Washington, D.C.