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THE WAR OF THE WORLD

THE ASCENT
OF MONEY

A FINANCIAL HISTORY OF THE WORLD



THE EVOLUTION OF BANKING

BANKRUPT NATION

OF HUMAN BONDAGE

THE EVOLUTION OF BANKING

- ❖ The financial revolution preceded the industrial revolution
 - The decisive breakthroughs in textile manufacturing and iron production were the spearheads of the Industrial Revolution and did not rely very heavily on banks for their financing.
 - The banks played a more important role in continental European industrialization than they did in England's.
- ❖ Sophisticated financial institutions caused growth or growth spurred on financial development.

ADAM SMITH – WEALTH OF NATIONS (1776)

- ✓ Explosion of financial innovation → a wide variety of different types of bank proliferate in Europe and North America.
- ✓ English banks in this period were nearly all private partnerships.

THE BANK OF ENGLAND

- ❑ developed public functions
- ❑ played a pivotal role in inter-bank transactions
- ❑ established branches in the provinces
- ❑ with the final scrapping in 1833 of the usury laws, the Bank was able to exploit its scale advantage as the biggest bank in the City.

1840: The Prime Minister Sir Robert Peel believed that it ran the risk of excessive banknote creation and inflation.

1847,1857,1866 : Repeated Crises highlighted the necessity of avoiding a complete collapse of liquidity.

The editor of the Economist, Walter Bagehot reformulated the Bank's proper role in a crisis as the «lender of last resort» to combat liquidity crises.

BY 1913:

**BRITISH SAVINGS BANK
DEPOSITS AMOUNTED TO**
£ 256 million

**GERMAN SAVINGS BANK
DEPOSITS AMOUNTED TO**
more than two and a half
times greater than those of the
better known «great german
banks»

By the eve of the First World War,
residents' deposits in British
Banks were nearly £1.2 billion,
compared with a total banknote
circulation of just £45.5
million.

BANKRUPT NATION

USA: On average, there were between one and two million bankruptcy cases every year in the United States.
(individuals couldn't meet their obligations)

- SECOND –MORTGAGE COMPANIES
- PAWNSHOPS

American Laws

- ✓ encouraged entrepreneurship
- ✓ facilitated the creation of new businesses
- ✓ allowed the natural-born risk takers to learn through trial and error, since today's bankrupt might well be tomorrow's successful entrepreneur.


Bad scenario: A world without money (no financial institutions and no banks)

- **The evolution of banking was thus the essential first step in the ascent of money.**
- **The financial crisis that began in August 2007 had relatively little to do with traditional bank lending or with bankruptcies, which actually declined in 2007. Its prime cause was the rise and fall of “securitized lending”.**
- **One of the greatest pillar of the modern financial system is the bond market.**
- **Bond markets are the fundamental base for all markets**

O F H U M A N B O N D A G E

In USA, in bond prices had risen, a movement that had actually preceded a speech by the president in which he pledged to reduce the federal deficit.

(politics and economy are interdependent)



A large part of the money we put aside for our old age ends up being invested in the bond market. Because of the huge size of the market and because big governments are regarded as the most reliable of borrowers, bond market sets long-term interest rates for the economy as a whole.

When bond prices fall, interest rates soar, with painful consequences for all borrowers.

The bond market passes a daily judgement on the credibility of every government's fiscal and monetary policies.

The higher interest pay-ments make the deficit even larger.

ALTERNATIVES OF GOVERNMENTS

- 1) Does it default on a part of its debt, fulfilling the bond market's worst fears?
- 1) Does it cut expenditures, upsetting voters or vested interest?
- 2) Does it try to reduce the deficit by raising the taxes?