



and capital flows encourages more crises, likely by virtue of it encouraging more cross border flows which tend to be less controllable by domestic authorities and more susceptible to reversing course.

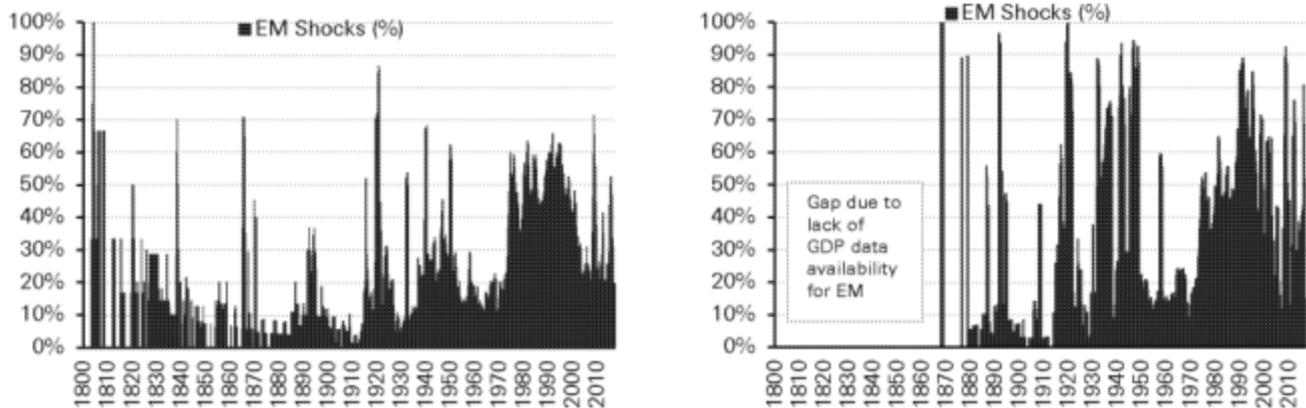
After WWI saw the first truly global financial crisis, we then saw the recovery of the 'roaring 20s'. However this soon made way for the 1930s global Depression and WWII. After the Second World War, we saw the calm before the more recent storm, as the Bretton Woods system heralded in a period of quiet and controlled global financial markets. We'll delve into more detail later as to why we had calm and then why we had the storm.

**Differences between DM and EM crises and shocks through history**

There are quite major differences between the DM and EM universe over our study. Emerging markets seemed to be in perpetual crisis between the 1930s and the end of the 1990s and are therefore off cycle relative to the DM trend. From the 1930s to the 1990s EM Sovereign defaults were plentiful.

Figure 15 shows the same data for EM without the influence of Sovereign defaults and when compared to Figure 14 highlights that a lot of the 1930s-end 1970s issue with EM was default. However since this point default risk has slowly fallen to ultra-low levels with FX devaluations and inflation taking over as the big theme in the 1980s and 1990s – a period where debt crises across the universe were commonplace. From this point on, even this has been less of an issue.

Figure 15: Percentage of EM Countries facing a Financial Shock (excluding sovereign debt crises) – Equally weighted (left) and GDP weighted (right)



Source: Deutsche Bank, Global Financial Data, Author's calculations

**Fiat currencies the problem, but also allow the quick fix**

Although our analysis so far shows that the post Bretton Woods financial order has been more crisis and shock prone than the prior 25+ years, and also that seen through most of observable financial history, the reality is that the current period of fiat currencies also arguably allows a buffer against an even greater number of them. So a real double edged sword. Since 1971, the global financial system has completely broken its ties with precious metal currencies systems. Prior to this period the vast majority of countries were tied to precious metal currencies for all but rare and short periods away from them.

Such forced discipline massively constrained the financial system and in particular made it very difficult to create credit in the same way we do in today's economy. It also made it very difficult for governments to run large budget or current account deficits. Any economic system tied to Gold left