



When the Dollar convertibility ended, the shackles were off and countries no longer had to adhere to strict policies in order to defend their peg to Gold or to the Dollar. The era of global fiat currencies had begun and we moved into a new world order almost totally different to any that had preceded it. With nothing backing paper money, the path to almost unlimited credit creation had begun. Prior to this point, although the strictness of tying currencies to Gold had been slowly diluted, there was always a physical limit to how much money there could be in an economy at any point in time. Over the course of the last 45 years financial market regulation also progressively loosened allowing private sector institutions to create money in a manner never previously seen on such a scale through history. A combination of fiat currencies and ever weakening financial market regulation basically ensured exponential growth in credit and debt creation.

This change has made boom and bust cycles more prevalent at a global level and ushered in an era of regular crises, but ones that have so far been tamed by even looser policy and debt/credit growth.

*A brief walk through the causes of crises of the last 45 years*

As the 1960s progressed, tensions were starting to build in what was on the surface the most stable global financial system in observable history. The period marked the origination and rise of Eurocurrencies which can be defined as deposits located in banks outside the home market thus allowing banks to bypass capital controls in international lending and planting the seed for the financial system post 1971. Eurocurrencies also allowed banks to circumnavigate home market reserve requirements, interest rate ceilings, deposit insurance and quantitative controls on credit growth.

As their use became more widespread they started to impact individual nation's balance of payments and as the 1960s drew towards a close, the Fed started to respond to allow domestic lending to compete by loosening regulations. The modern financial system thus started to take shape and the Bretton Woods system began to see irreversible damage.

Trade imbalances started to grow and US went from a surplus to deficit country, especially with the costs of the Vietnam War. While the dollar remained at the centre of the financial system, the excess dollars created and the increasing liberalisation of global financial markets, led to global inflation and the risk of a convertibility run.

Eventually Nixon suspended Dollar convertibility to Gold on August 15th 1971 and we very quickly moved to a new world economic order. The immediate aftermath of the end of the Bretton Woods system coincided with the spectacular rise in the price of Oil partly related to inflationary forces but also due to geo-political tensions in the Middle East. The combination of the petrodollars it created and the new liberalisation in financing led to a large rise in lending, particularly to EM countries to enable them to finance their oil imports. As well as Eurocurrencies, this period started to see the huge growth of portfolio investing which led to a substantial increase in global capital mobility at a time of ever loosening capital controls around the world.

In the 1970s, Keynesian policies dominated as a cure to address the economic problems of the day and debt was allowed to climb to cushion the impact of weaker economies. Debt and inflation climbed, not helped by the impact of the two main Oil crises of the decade. By the end of the 1970s, and as we started the 1980s, the economic consensus was changing towards a bias for tighter monetary policy and (relative) fiscal austerity. Ideas from the likes of Milton Friedman started to take over. This was a big move away from regulation and towards free markets and one away from big government towards the belief