It is now fashionable to assert that the 1990s are the second modern era of global finance, the first having been prior to World War I. In the years leading up to the Great War, it is said, international financial markets were even more integrated than today. National markets were bound together by the corset of the gold standard. Capital flowed across borders undeterred by currency risk or exchange controls. Interest rates on government bonds denominated in different currencies converged strongly (McKinnon, 1988). International capital movements, scaled by the incomes of the countries concerned reached levels never matched subsequently (Bayoumi, 1990). The integration of capital markets was reinforced by and in turn reinforced the integration of labor and commodity markets. International migration reached high levels (Hatton and Williamson, 1998), and the growth of trade outstripped the growth of incomes (O'Rourke and Williamson, 1998). World War I relegated this rosy state of affairs to history's dustbin. Capital controls, tariffs, and restrictions on migration proliferated, a trend which accelerated in the crisis-ridden 1930s and 1940s. After World War II, however, the tide turned. The Bretton Woods Agreement promoted the resumption of current account convertibility, while the GATT encouraged the reduction of tariffs and the multilateralization of trade.

For a time, capital controls remained. But with the recovery of confidence in the benefits of economic and financial openness and advances in information and communications technologies that have made it harder to close off national markets from international transactions, capital mobility has trended ineluctably upward. The world today, it is said, is reverting to a pre-1914 future. And if financial integration and economic integration more generally trace out a u-shaped pattern, starting at high levels in the late- 19th century, collapsing between the wars, and recovering gradually after 1945, then there is nothing new or unprecedented about the current financial environment in which domestic economies are tightly integrated into the world capital market, and economic policies are constrained.

In this paper, we reconsider this "back-to-the-future" scenario, concluding that the analogy with the 19th century should not be pushed too far. In some respects the financial integration of the pre-1914 era remains unsurpassed, but in others today's financial markets are more even closely integrated than those of the past. The difference today is that new information—generating and processing technologies have reduced the market segmenting effects of asymmetric information. In consequence, the range of financial claims that are traded internationally has broadened. Where international financial transactions were once dominated by claims on governments, railroads and mining companies, entities with tangible and therefore relatively transparent assets, international investors now transact freely in a much broader range of securities. In addition, direct foreign investment is no longer dominated by investments in free-standing resource extracting companies often operating under the wing of protective colonial governments; instead, the vehicle today for DFI is multinational firms, which are present in virtually every country and all manufacturing and service activities.

Bordo, M. D., Eichengreen, B., & Kim, J. (1998). Was there really an earlier period of international financial integration comparable to today? (No. w6738). *National Bureau of Economic Research Woorking Paper*, p. 2-3.